BC HYDRO'S ANNUAL REPORT 2007

MAKE A
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BC hydro

FOR GENERATIONS

2008-01642/

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BC HYDRO'S ANNUAL REPORT

This report covers our performance for the period April 1, 2006, through March 31, 2007, and integrates the Annual Report with our triple bottom line report on performance. Reporting on sustainability reflects BC Hydro's commitment to balance business across the three bottom lines: environmental, social and financial, now and well into the future.

The performance targets for fiscal 2007 referenced in this report were those set out in our February 2006 Service Plan. The Service Plan provides a high-level, strategic look at our business and sets out the targets and measures by which our performance can be evaluated.

To meet the requirements for both annual and triple bottom line reporting, this report has been prepared in accordance with British Columbia's *Budget Transparency and Accountability Act* and Canadian generally accepted accounting principles (GAAP), and in accordance with the Global Reporting Initiative (GRI) 2002 Guidelines. The GRI guidelines set out a series of recommended performance metrics that represent a balanced and reasonable presentation of economic, environmental and social performance. In addition to the measures found in the Annual Report, BC Hydro tracks and reports performance against the GRI recommended metrics where possible.

A comprehensive list of performance data that supports BC Hydro's commitment to triple bottom line reporting is available in the GRI Comparative Index online at BC Hydro's website (http://www.bchydro.com/info/reports/reports11858.html.

LARRY BELL

BOB ELTON

The 2007 BC Hydro Annual Report was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act*. This report has also been prepared in accordance with the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organization's economic, environmental and social performance. The Board is accountable for the contents of this report, including the selection of performance measures and targets, and how the results have been reported. The information presented reflects the actual performance of BC Hydro for the 12 months ended March 31, 2007. All significant decisions, events and identified risks as of May 31, 2007 have been considered in preparing this report.

The information presented here is prepared in accordance with the B.C. Reporting Principles and represents a comprehensive picture of our actual performance in relation to our February 2006 Service Plan. The measures presented are consistent with BC Hydro's values, purpose, goals and objectives, and focus on aspects critical to BC Hydro's performance.

The BC Hydro Board is responsible for ensuring internal controls are in place to measure performance information accurately and in a timely fashion. This report contains estimates and interpretive information that represent the best judgment of management. Any significant limitations in the reliability of data are identified in the report.

An eventful year...

BC Hydro had an eventful and rewarding year in 2006-2007, highlighted by developments that will have a significant impact on the long-term future of the company and the future of electricity in British Columbia.

This year, the government released the BC Energy Plan: A Vision for Clean Energy Leadership which sets out a bold vision for electricity self-sufficiency by 2016, for meeting half of our future resource needs through conservation by 2020, and for continuing to meet the highest environmental standards.

The most immediate tasks facing us are the need to meet the growing demand for electricity in B.C., and to achieve self-sufficiency by 2016. We will accomplish these goals through a combination of conserving more, buying more power from independent power producers, and building more capacity through reinvesting in existing heritage assets and considering new larger-scale projects.

Conservation has been a cornerstone of our approach since the late 1980s when we launched the Power Smart program. This year, Power Smart programs produced annual energy savings of 2,518 gigawatt hours. In the fall of 2006, we launched the Conservation Research Initiative, a 12-month research project to examine how adjusting the price of electricity at different times of the day can influence customer energy use. With the help of 2,000 customers who volunteered to be part of this project, we will soon learn how they changed their habits to conserve energy. Lessons drawn from this initiative will inform our long-term rate strategy as well as the introduction of smart meters into B.C. homes.

While conservation is our first and best option for meeting our future energy needs, we will continue to procure new sources of power such as those acquired through our 2006 Call for Power. As a result of this process, we awarded 38 contracts to independent power producers involving sources as diverse as small run-of-the-river hydro, wind, biomass, and waste/heat projects.

We also continue to look for opportunities to upgrade and improve our existing facilities. For example, this year we received approval from the BC Utilities Commission for the Aberfeldie Redevelopment Project, which will allow us to proceed with replacing the existing five megawatt powerhouse with a 24 megawatt powerhouse.

The fall and winter of 2006/07 brought some significant challenges for BC Hydro and our customers. From late October 2006 through to the middle of January 2007, British Columbia was hit by five major storms which caused an unprecedented number of power outages to our customers, along with extensive damage to our transmission and distribution systems. Financially, BC Hydro faced higher storm restoration costs due to the unexpected number and severity of storms this fiscal year.

This year, we made significant progress in many of our key strategic and operational areas. Notwithstanding the challenges presented by the winter storms, many of our measures surpassed or were close to meeting their performance targets. Overall, we met or exceeded six of our 12 corporate performance targets established in our 2006/7-2008/9 Service Plan. For example, this year, our net income was $407 million, which was an improvement over the previous year and exceeded our target.

Safety of our employees and safety of the public is a high priority for our company. This year we took action to further embed safety into our culture. We commissioned an expert panel to undertake an independent review of our safety-related performance. The panel concluded that our safety performance was satisfactory. But we're not satisfied with just being "satisfactory," so we will strive to improve the way we think about safety across the company, and ensure our actions bear witness to that commitment.

While we plan for the future, we must also be mindful of the past. In December, we signed Agreements in Principle with the Tsay Keh Dene and the Kwadacha First Nations to address the impacts of flooding due to the creation of the Williston Reservoir in the 1960s.

...with new challenges and opportunities ahead

As we look ahead, we believe that BC Hydro is well positioned to help the provincial government deliver on the vision articulated in the 2007 BC Energy Plan. Our conservation initiatives, our commitment to seek out alternative energy sources, and our clean, green hydroelectric generating facilities already make British Columbia a leader in generating sustainable electricity.

But we must never lose sight of our core function, and that is to deliver a reliable source of electricity to our customers. The province's economic, social and environmental well-being depends upon BC Hydro being able deliver power 99.97 per cent of the time, if not better. In other words, all our customers, whether they are residential, commercial or industrial, depend on electricity being delivered at the moment of peak demand, such as when we get home from school or work on the coldest, darkest day of winter. If power is reliable at that moment, it is reliable at almost all other times.

Today, clean hydroelectricity meets 90 percent of our province's electricity needs and provides low, stable rates for customers. But our forecasts indicate that B.C.'s demand for electricity will grow by up to 45 percent over the next 20 years.

Meeting the government's goal of acquiring half of our incremental energy needs through conservation by 2020 will take leadership from BC Hydro and personal leadership from individual British Columbians. Through new rate structures, residential use of energy-efficient lighting, commercial building upgrades, and other energy-efficient products and technologies, we will be able to encourage consumers to use 10 per cent less electricity than they do today.

Finally, we need to build more capacity if we are to meet our electricity needs beyond the next decade. The types of projects that typically offer energy and capacity are large hydroelectric dams. Each one of these energy projects comes with its own economic and social benefits and costs. Each comes with its own environmental advantages and risks. But by taking action, we can ensure a secure energy future for our province.

It has been a busy, successful year. We look forward to the year ahead, and to the new challenges we will surely face, which, as in the past, help us become an even stronger provider of reliable, low cost energy for years to come.

Sincerely,

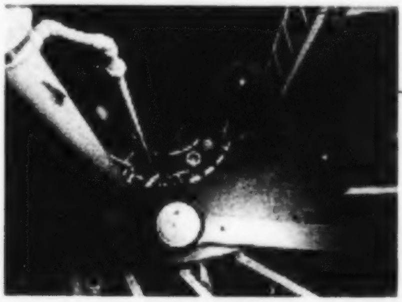
Larry Bell
Chair

Bob Elton
President and CEO

About us

BC Hydro is the largest electric utility in B.C., serving more than 1.7 million customers. Our primary business activities are the generation and distribution of electricity. We are responsible for reliably generating between 43,000 and 54,000 gigawatt hours (GWh) of electricity from our world-class, integrated hydroelectric system.

Our generation system has a total installed capacity of 11,300 megawatts (MW). About 90 per cent of this generation is based on clean, renewable hydroelectricity, enabling BC Hydro to offer customers low greenhouse gas intensity and some of the lowest electricity rates in the world. Electricity is delivered to customers through an interconnected system of about 18,280 kilometres of transmission lines and 56,000 kilometres of distribution lines. The transmission assets are owned by BC Hydro; the management and operation of the transmission system is the responsibility of the British Columbia Transmission Corporation (BCTC).



BC HYDRO'S MANDATE

BC Hydro's mandate is to generate, manufacture, distribute and sell power, upgrade its power sites, and to purchase power from, or sell power to, a firm or person under the terms of the *Hydro and Power Authority Act*.

Our company owns the majority of the transmission and distribution systems that deliver electricity in the province. BC Hydro is regulated by the BCUC, which is responsible for ensuring that BC Hydro operates in the best interests of our customers while providing a fair return to the shareholder, the Province of British Columbia.

Our company's mandate is fulfilled within the context of the corporate purpose outlined below.

OUR PURPOSE

BC Hydro's purpose is: Reliable Power, at Low Cost, for Generations.

Reliable Power means that BC Hydro will have the electricity available and delivered to domestic customers when it is needed. It is dependent upon generation supply, transmission capacity and distribution performance.

Low Cost means that our operations are at the forefront of business success. By being fiscally prudent, and always considering environmental and social costs, BC Hydro will maintain a legacy of low-cost operations over the long term for our customers.

For Generations confirms BC Hydro's commitment to sustainability in managing our business. This means making long-term decisions and balancing trade-offs along the environmental, social and financial bottom lines.

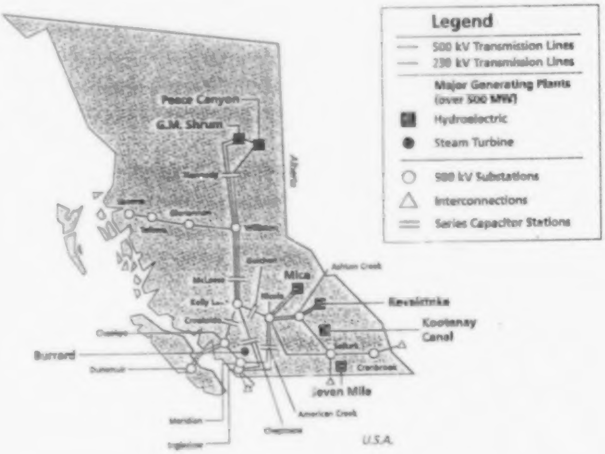
OUR VALUES

BC Hydro has five core values: Accountability, Integrity, Service, Safety and Teamwork

BC Hydro believes the five values below to be essential to our success.

- Accountability – we take responsibility for our actions
- Integrity – we are fair and honest, open and straightforward
- Service – we seek solutions and build relationships
- Safety – we integrate safety into everything we do
- Teamwork – we work together and with others to achieve results

In conjunction with these core values, BC Hydro's Employee Code of Conduct provides clear guidelines to all directors and employees on the standards of conduct expected of them in all business relationships.


Legend
500 kV Transmission Lines
230 kV Transmission Lines
Major Generating Plants (over 500 MW)
Hydroelectric
Steam Turbine
500 kV Substations
Interconnections
Series Capacitor Stations
Peace Canyon
G.M. Shrum
Alberta
Williston
Mica
Ashton Creek
Revelstoke
Kootenay Canal
Selkirk
Cranbrook
Seven Mile
Kelly Lake
McLeese
Burrard
Dunsmuir
Meridian
Ingledow
Cheekye
American Creek
U.S.A.

BC Hydro has corporate offices in more than 50 communities throughout the province.

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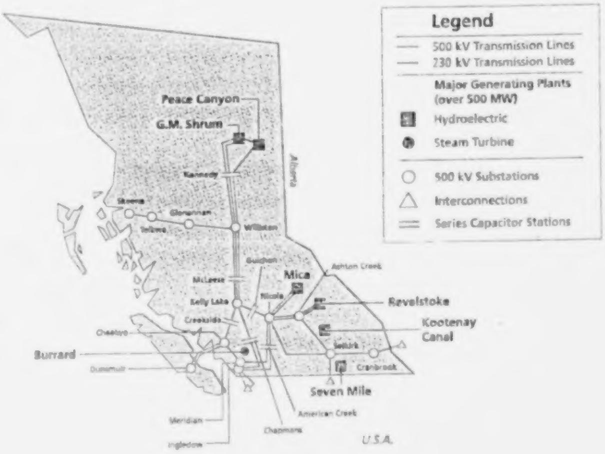
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Glenannan
Telkwa
Williston
Guichon
McLeese
Kelly Lake
Nicola
Mica
Ashton Creek
Revelstoke
Kootenay Canal
Creekside
Cheekye
Burrard
Dunsmuir
Selkirk
Cranbrook
Seven Mile
American Creek
Meridian
Chapmans
Ingledow
U.S.A.

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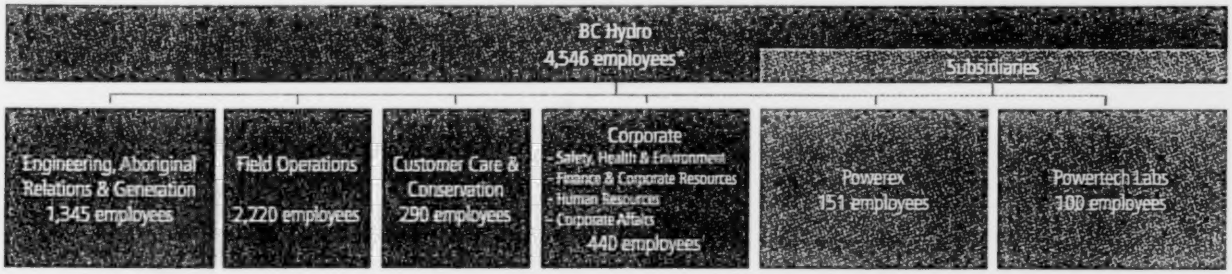
ORGANIZATIONAL STRUCTURE

On May 31, 2006, BC Hydro announced organizational changes to our business structure that included the consolidation of some business lines and a streamlined executive team. We implemented these changes to better align BC Hydro's business model to deliver on our five short-term priorities (see p.14) and to promote improved coordination between business functions. The new structure consists of operational business groups, a corporate function and two primary operating subsidiaries, Powerex and Powertech (see diagram below and the Appendix on p.122 for more information on our subsidiaries). As at March 31, 2007, we had 4,546 employees (full-time count as 1, part-time count as 0.5).


BC Hydro
4,546 employees*
Subsidiaries
Engineering, Aboriginal Relations & Generation
1,345 employees
Field Operations
2,220 employees
Customer Care & Conservation
290 employees
Corporate
- Safety, Health & Environment
- Finance & Corporate Resources
- Human Resources
- Corporate Affairs
440 employees
Powerex
151 employees
Powertech Labs
100 employees

**total number of employees as of March 31, 2007*

Engineering, Aboriginal Relations and Generation: Generation manages and operates BC Hydro's generation assets to optimize their value for the benefit of the company, customers and the shareholder. Generation also manages the investment strategies related to generation assets, including the expenditures that are required to meet social and environmental responsibilities. Generation assets include 41 dam sites (75 dams), 80 generating units at 30 hydroelectric facilities and nine units at three thermal generating plants. The Engineering group provides project management, maintenance, emergency response, design, environmental, contracts, and construction management services to BC Hydro and BCTC. Aboriginal Relations works to establish mutually beneficial relationships with Aboriginal people through negotiations, cross-cultural training, engagement, and community involvement.

Field Operations delivers energy safely and reliably to customers, and provides extension and connection services to our customers. They manage 56,000 kilometres of distribution lines, 882,000 poles and 317,000 transformers in the Distribution system. They also provide services such as emergency response and restoration, as well as maintenance and construction services to BCTC, and manage the provision of vehicle fleet services and material supply chain services.

Customer Care and Conservation is responsible for long-term planning and acquiring resources for our province's energy needs, and providing customer care services, as well as creating and implementing Power Smart programs. The role of this business unit is to meet the needs of our customers by ensuring they get the best long-term value from their use of electricity and the best service from BC Hydro.

Corporate groups have multiple responsibilities for the entire organization. These include finance, regulatory affairs, risk management, information technology, legal, properties, safety, health, environment, communications, stakeholder engagement, public affairs, human resources and sustainability.

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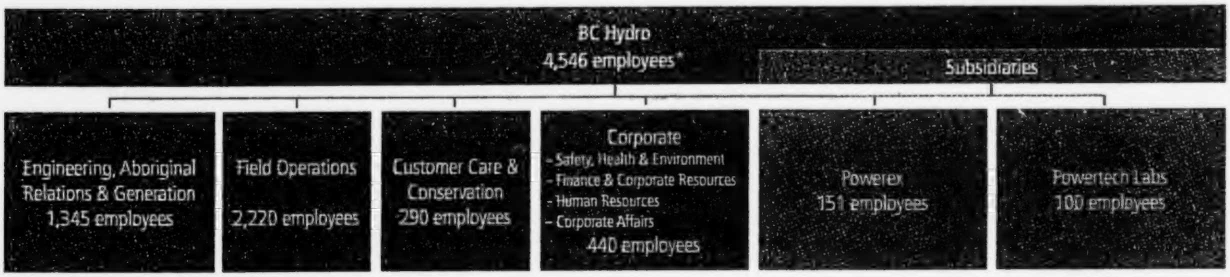
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KEY BUSINESS PARTNERSHIPS

Accenture Business Services for Utilities (ABSU)

ABSU assumed responsibility for the performance of certain functions for BC Hydro on April 1, 2003.

These functions include customer services, information technology, human resources, financial systems, purchasing, and building and office services. The agreement represents a commitment on BC Hydro's part to outsource services of $1.27 billion over 10 years in exchange for contractually committed savings of $250 million over the same period. BC Hydro continues to receive service at the levels received prior to the outsourcing agreement. In some cases service has exceeded past levels.

Financially, for the first four years (fiscal 2004 to fiscal 2007) of the contract, BC Hydro has realized gross cumulative savings of $76.2 million (Forecast: $73.4 million).

British Columbia Transmission Corporation

BCTC is regulated by the BCUC. BCTC was formed in 2003 as part of the Provincial Government's 2002 Energy Plan, and provided for in the *Transmission Corporation Act*, and is responsible for planning, operating and managing BC Hydro's transmission system. BC Hydro retains ownership of the transmission system and is responsible for First Nations relationships and property rights with respect to the transmission system.

BCTC and BC Hydro work together in a number of different ways to ensure system reliability. The fundamental business relationship between BCTC and BC Hydro is defined by agreements designated under the *Transmission Corporation Act*.

BCTC is responsible for obtaining the approval of the BCUC for:

- The Transmission System Capital Plan, which is then funded by BC Hydro
- An Open Access Transmission Tariff, including a component to fully recover the cost of ownership that is collected on behalf of, and remitted to, BC Hydro.

Independent Power Producers

BC Hydro contracts with independent power producers (IPPs) to ensure new additional resources for energy are secured to meet customers' needs and load growth as identified in the Integrated Electricity Plan. BC Hydro completed an Open Call for Power in the summer of 2006 that resulted in 38 Electricity Purchase Agreements (EPAs) with independent power producers throughout the province for approximately 1,500 MW of capacity and over 7,000 GWh/year of energy (4,200 GWh/year of firm energy net of attrition and outages). In its 2006 Integrated Electricity Plan/Long-Term Application Plan, BC Hydro identified the need to proceed with a 2007 Call for Power to acquire 5,000 GWh/year of firm energy for delivery by Fiscal 2015. Potential resource options for IPPs are also identified in the 2007 BC Energy Plan.

There is a high level of interest in these calls for power, and this interest reflects a maturing and competitive IPP market in our province. IPPs are subject to regulatory and public processes and must obtain a number of government agency approvals before they can build any generating facilities, such as acquiring environmental permits, obtaining construction and operating permits, and receiving BCUC acceptance of filed electricity purchase agreements.

BC Hydro will continue to conduct best-in-class competitive call processes and targeted actions to obtain a mix of projects which will contribute towards meeting the 90 per cent clean or renewable electricity target, as outlined in the 2007 BC Energy Plan. British Columbians will continue to be encouraged to take part in the discussion about our energy future through public processes to ensure that we achieve a balanced, cost-effective resource portfolio to meet our province's growing electricity requirements.

LEGISLATION AND PUBLIC POLICY

Operating Legislation

Two key provincial legislative statutes enable BC Hydro's operations. Our mandate is provided for under the *Hydro and Power Authority Act*. This Act created BC Hydro and establishes its general powers and governance. The other piece of legislation is the *Utilities Commission Act*. This Act creates the BCUC and establishes the framework for regulation of public utilities.

The BCUC is an independent regulatory agency of the provincial government, operating under and administering the *Utilities Commission Act*. The BCUC's primary responsibility relative to our industry is the regulation of the energy utilities under its jurisdiction to ensure that the rates charged for energy are fair, just and reasonable, that the shareholders of utilities have a reasonable opportunity to earn a return on their invested capital, and that utility operations provide safe, adequate and secure service to customers.

BC Hydro's assets also come under the terms of the *BC Hydro Public Power Legacy and Heritage Contract Act*. This Act ensures public ownership of BC Hydro's Heritage Resources, which includes BC Hydro's transmission and distribution systems, and all of BC Hydro's existing generation and storage assets, and enabled the establishment of the Heritage Contract. The Act also includes any future increases to the capacity and energy capability of these facilities, including potential future units five and six at both Mica and Revelstoke respectively.

Provincial Public Policy – The 2007 BC Energy Plan

BC Hydro is a provincial commercial Crown corporation and has a role in implementing provincial public policy. The provincial government's BC Energy Plan: A Vision for Clean Energy Leadership was released in February 2007. The 2007 BC Energy Plan provides policy direction and guidance for BC Hydro to produce and acquire power in advance of future needs. BC Hydro's short-term priorities and long-term goals also align with the Plan.

The 2007 BC Energy Plan aims to meet the global challenge of ensuring a secure, reliable supply of affordable energy in an environmentally responsible way. Elements include moving to eliminate or offset greenhouse gas emissions for all new thermal projects, making B.C. energy self-sufficient by 2016, maximizing our conservation efforts to meet 50 per cent of our incremental resource needs by 2020, and ensuring the continued use of new clean and renewable alternative energy sources.

Overview

BC Hydro's Annual Report is designed to meet the provincial government's *Budget Transparency and Accountability Act* requirement to report on the performance targets set out in our Annual Service Plan. We also report on activities that align with the Global Reporting Initiative 2002 Guidelines for triple-bottom-line reporting. BC Hydro sets performance targets for each of the measures in the Annual Service Plan. Beginning on page 15, we have included charts that outline our long-term goals from the past year and track our performance towards meeting these goals. They also show measures we will use going forward and set performance targets for each measure. In addition, BC Hydro's internal audit group periodically reviews performance management systems to ensure the reliability of information .

Overview

BC HYDRO'S LONG-TERM GOALS AND SHORT-TERM PRIORITIES

BC Hydro evaluates our performance with specific targets and measures, mapping the right indicators for each of the 15 long term goals. This enables BC Hydro to modify short- and long-term plans at early stages, and ensure BC Hydro is on the right track to meeting our goals.

The Report on Performance section reports out on short-term priorities and targets – safety, reliability of customer and supply, customer satisfaction, people and financial targets, in addition to our environment long-term goal, as outlined in the 2006/7 to 2008/9 Service Plan. BC Hydro's 15 long-term goals can be referenced in the Appendices section included at the back of this report.

Short-Term Priority	Description
Safety	To provide the safest work environment compared with the best performers in any industry.
Reliability (Supply)	To ensure all the infrastructure components are in place – and are operating optimally – to deliver energy to our customers. These components include generating facilities, the transmission network and the distribution network.
Reliability (Customer)	To provide best-in-class reliability by customer segment, and deliver an uninterrupted supply of electricity to our customers' satisfaction (recognizing that different types of customers have different expectations.)
Financial Targets	To maintain low costs for electricity customers in B.C. over the long term, while consistently delivering 100 per cent of forecast net income.
Customer Satisfaction	To lead other companies in offering extraordinary value and service to our customers, including remote communities.
People	To be the top employer for generations and to use exceptional teamwork to engage all employees.

Although we have chosen to focus on five goals for the time being, we continue to work on accomplishing projects, setting targets and achieving measures that relate to each of the 15 long-term goals as part of our business.

Definitions of the performance measures and disclosures of actual performance relative to BC Hydro's targets can be found throughout the Report on Performance section.

How We Measure Our Performance

BC Hydro uses a series of measures to guide business performance and progress. Some of these measures are tracked on a monthly basis; others are tracked quarterly, semi-annually and annually. BC Hydro has developed and is developing leading measures where practical to determine if progress on meeting our goals is on track and to identify where adjustments need to be made. Measures are results-based and will help the company, shareholder and public to more accurately evaluate performance. BC Hydro also participates in a number of benchmarking studies to determine areas where improvement may be required.

Performance Overview

BC HYDRO'S SHORT-TERM PRIORITIES

BC Hydro develops performance measures and targets to support our Long Term Goals and Short Term Priorities. These measures are included in BC Hydro's annual Service Plan prepared for the Provincial Government and progress towards meeting these targets is reported in the annual triple bottom line report. Performance measures and targets being reported for fiscal 2007 were included in the February 2006 Service Plan. Targets for fiscal 2008 and beyond are included in the Fiscal 2008 Service Plan, which was released in February 2007.

A Look Back on our Performance for Fiscal 2007

At target ● Above target ▲ Below target ▼

Short Term Priorities	Measure	04/05 Actual	05/06 Actual	06/07 Target	06/07 Actual	07 Performance	07/08 Target	08/09 Target	09/10 Target
Safety	All Injury Frequency (Number of employee injury incidents per 200,000 hours worked)	2.6	2.6	2.1	2.4	▼	1.9	1.5	1.2
	Severity (Number of calendar days lost due to injury per 200,000 hours worked)	36.3	57.3	29	31.4	▼	25	22	20
Reliability[1]									
Supply	Winter Availability Factor (%)	N/A	96.77	95.75	96.24	▲	96.20	96.40	96.60
Customer	ASAI (%)								
	Actual (Including Major Events)	99.955	99.957	N/A	99.870		N/A	N/A	N/A
	Excluding Major Events	99.966	99.969	99.970	99.967	▼	99.970	99.970	99.970
	CAIDI (hours)								
	Actual (Including Major Events)	2.69	2.10	N/A	4.09		N/A	N/A	N/A
	Excluding Major Events	2.27	1.82	2.15	2.16	▼	2.15	2.15	2.15
	CEMI-4 (%) (Excluding Major Events)	N/A	14	11	7	▲	10	9	8
	CELID-6 (%) (Excluding Major Events)	N/A	17	17	13.59	▲	16	14	13
Energy Conservation and Efficiency	Demand Side-Management (GWh/year, cumulative)	1,388	1,969	2,500	2,518	▲	2,800	3,300	3,800
Environmental Impact	Clean Energy (%)	36	21	19	17	▼	TBD*	TBD*	TBD*
	Environmental Regulatory Incidents (Number)	14	12	16	23	▼	15	15	N/A
Financial	Net Income ($ in millions)	402	266	395	407	▲	365	396	416
Customer Satisfaction[2]	Customer Satisfaction (%)								
	Scored 7 to 10	90	85	N/A	N/A		N/A	N/A	N/A
	Scored 8 to 10	N/A	71	76	72[2]	●	80[2]	80[2]	80
People[3]	Productive Engagement Index (Score out of five)	N/A	3.3	N/A	N/A	N/A	3.5	3.7	3.9

* To be developed

Notes:

1. The Reliability (Customer) metrics and targets in the Service Plan exclude major events. The Annual Report provides results to include and exclude major events.
2. The Customer Satisfaction measure in fiscal 2007 tracked highly satisfied customers at a score of eight to 10 out of 10. Historically, it was based on a seven or higher rating out of 10. The results at 72 per cent are considered on target when including the margin of error (+/- 4.2%). A new Customer Satisfaction metric has been adopted for fiscal 2008. The rating will be based on an improved methodology using a four-point verbal scale (very satisfied, satisfied, dissatisfied and very dissatisfied). The targets for fiscal years 2008, 2009, and 2010 reflect this change.
3. The annual employee survey has been moved from February to November. This timing adjustment resulted in the survey not being conducted in fiscal 2007 as there was not enough time between surveys to demonstrate meaningful results. The next employee survey is planned for November 2007.

Performance Overview

BC HYDRO'S SHORT-TERM PRIORITIES

BC Hydro develops performance measures and targets to support our Long Term Goals and Short Term Priorities. These measures are included in BC Hydro's annual Service Plan prepared for the Provincial Government and progress towards meeting these targets is reported in the annual triple bottom line report. Performance measures and targets being reported for fiscal 2007 were included in the February 2006 Service Plan. Targets for fiscal 2008 and beyond are included in the Fiscal 2008 Service Plan, which was released in February 2007.

A Look Back on our Performance for Fiscal 2007

At target ● Above target ▲ Below target ▼

Short Term Priorities	Measure	04/05 Actual	05/06 Actual	06/07 Target	06/07 Actual	07 Performance	07/08 Target	08/09 Target	09/10 Target
Safety	All Injury Frequency (Number of employee injury incidents per 200,000 hours worked)	2.6	2.6	2.1	2.4	▼	1.9	1.5	1.2
	Severity (Number of calendar days lost due to injury per 200,000 hours worked)	36.3	57.3	29	31.4	▼	25	22	20
Reliability[1]									
Supply	Winter Availability Factor (%)	N/A	96.77	95.75	96.24	▲	96.20	96.40	96.60
Customer	ASAI (%)								
	Actual (Including Major Events)	99.955	99.957	N/A	99.870		N/A	N/A	N/A
	Excluding Major Events	99.966	99.969	99.970	99.967	▼	99.970	99.970	99.970
	CAIDI (hours)								
	Actual (Including Major Events)	2.69	2.10	N/A	4.09		N/A	N/A	N/A
	Excluding Major Events	2.27	1.82	2.15	2.16	▼	2.15	2.15	2.15
	CEMI-4 (%) (Excluding Major Events)	N/A	14	11	7	▲	10	9	8
	CELID-6 (%) (Excluding Major Events)	N/A	17	17	13.59	▲	16	14	13
Energy Conservation and Efficiency	Demand Side-Management (GWh/year, cumulative)	1,388	1,969	2,500	2,518	▲	2,800	3,300	3,800
Environmental Impact	Clean Energy (%)	36	21	19	17	▼	TBD*	TBD*	TBD*
	Environmental Regulatory Incidents (Number)	14	12	16	23	▼	15	15	N/A
Financial	Net Income ($ in millions)	402	266	395	407	▲	365	396	416
Customer Satisfaction[2]	Customer Satisfaction (%)								
	Scored 7 to 10	90	85	N/A	N/A		N/A	N/A	N/A
	Scored 8 to 10	N/A	71	76	72[2]	●	80[2]	80[2]	80
People[3]	Productive Engagement Index (Score out of five)	N/A	3.3	N/A	N/A	N/A	3.5	3.7	3.9

* To be developed

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Performance Overview

CHANGES TO OUR MEASURES FOR FISCAL 2007

The following table outlines Service Plan measures for fiscal 2007 and any changes to metrics from the previous year. Since first reported in the fiscal 2006/07 to 2008/09 Service Plan, our fiscal 2007 measures have been further refined. Changes to targets have also been noted in the Report on Performance section.

Measure Used in 2006 Annual Report (2005/06 to 2007/08 Service Plan Measure)	Measure Used in 2007 Annual Report (2006/07 to 2008/09 Service Plan Measure)	Explanation
Reliability (Customer) ASAI (%) CAIDI (hours)	Reliability (Customer) ASAI (%) CAIDI (hours) CEMI-4 (%) CELID-6 (%) Reliability (Supply) Winter Availability Factor (%)	System measures of ASAI and CAIDI still tracked; also reporting CEMI-4 and CELID-6 measures that better reflect reliability from the customers' point of view. Additional generation reliability measure.
Percentage of Customers Satisfied and Highly Satisfied (rating BC Hydro 7 to 10 out of 10)	Percentage of Customers Highly Satisfied (rating BC Hydro 8 to 10 out of 10)	Moved to a higher standard; tracking only highly satisfied versus satisfied and highly satisfied customers. However, analysis has shown that this metric had several limitations. As a result, BC Hydro prepared an index measure of customer satisfaction that will be reported on in future reports.
All Injury Frequency (number of employee injury incidents per 200,000 hours worked)	All Injury Frequency (number of employee injury incidents per 200,000 hours worked) Severity (number of calendar days lost per 200,000 hours worked)	No change. Severity tracks the number of calendar days lost due to injury per 200,000 hours worked and is a standard CEA measure which allows us to compare our performance to best performers in the industry.
Environmental Regulatory Compliance (number of reportable and preventable incidents)	Environmental Regulatory Compliance (number of reportable and preventable incidents)	No change. This metric will no longer included in the Service Plan, but will be reported on in future Annual Reports and is still tracked for environmental reporting purposes.

Performance Overview

CHANGES TO OUR MEASURES FOR FISCAL 2007 continued

Measure Used in 2006 Annual Report (2005/06 to 2007/08 Service Plan Measure)	Measure Used in 2007 Annual Report (2006/07 to 2008/09 Service Plan Measure)	Explanation
Demand-side Management (Cumulative GWh/year)	Demand-side Management (Cumulative GWh/year)	No change.
New Electricity from Clean Energy %	Clean Energy Delivered (percentage of)	Targets have been revised due to impact of higher demand. This metric is no longer included as a performance measure in the Service Plan but will continue to be reported in the Annual Report.
Financial Targets Net Income ($ millions)	Net Income ($ millions)	No change.

MEASURES ELIMINATED FOR FISCAL 2007

Fiscal 2006 Measure (Service Plan 2005/06 to 2007/08)	Fiscal 2007 Measure (Service Plan 2006/07 to 2008/09)	Explanation for Measure Change
Sustaining Capital Ratio	Incorporated into other measures (Reliability and Supply)	Measure dropped; not a key measure to deliver on our strategy. Success in allocating sustaining capital will be reflected in reliability (customer and generation) measures.
Approved Strategic Workforce Positions Filled	Productive Engagement Score	Measure dropped; not a key measure to deliver on our strategy in respect of people. Measure replaced with the Employee Productive Engagement Score.
	Price Competitiveness	Measure dropped; a productivity measure is under consideration for inclusion in the 2008/09 to 2010/11 Service Plan to replace the price competitiveness metric.

Performance Overview

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	Reliability (Supply) Winter Availability Factor (%)	Additional generation reliability measure.
Percentage of Customers Satisfied and Highly Satisfied (rating BC Hydro 7 to 10 out of 10)	Percentage of Customers Highly Satisfied (rating BC Hydro 8 to 10 out of 10)	Moved to a higher standard; tracking only highly satisfied versus satisfied and highly satisfied customers. However, analysis has shown that this metric had several limitations. As a result, BC Hydro prepared an index measure of customer satisfaction that will be reported on in future reports.
All Injury Frequency (number of employee injury incidents per 200,000 hours worked)	All Injury Frequency (number of employee injury incidents per 200,000 hours worked)	No change.
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Performance Overview

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Safety

BC Hydro is committed to integrating safety in all we do. We want to provide the safest work environment for our employees, compared with the best performers in any industry. We also want to ensure that none of our employees will experience a serious safety injury.

We work for continuous improvement in safety performance, driving towards our vision of zero injuries. We believe that the following principles, and their application throughout BC Hydro, are the core of this effort – we accept that all incidents are preventable, we accept responsibility for providing a safe workplace, and we believe that employee involvement is essential, that training to work safely is essential, and that all employees are accountable for their own personal health and safety as well as the safety of their co-workers.

Safety

EMPLOYEE SAFETY

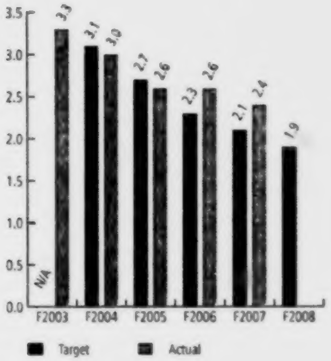
In fiscal 2007, safety performance as measured by All Injury Frequency (AIF) improved to 2.4, but did not meet the target of 2.1. Injury severity improved by almost 50 per cent to 31; however, this improvement was not enough to meet the 2007 target of 29. The reporting of 312 near misses – incidents where the potential for injury is seen, documented and remedied before injury actually results – was better than the target of 139. The increase in near-miss reporting is positively regarded, as it gives BC Hydro a better idea of areas where we can improve our safety efforts.

Although there were no employee fatalities in fiscal 2007, serious and fatal electrical contact incidents in the past several years have led to a broad review of safety practices and procedures across all BC Hydro operations. Some initiatives undertaken in the past year include:

- Safety leadership training delivered to managers and crew leaders, and a one-day safety component added to BC Hydro's Supervising for Results training for new managers and crew leaders,
- Revisions to BC Hydro's safety regulations and standards implemented in the fall of 2006,
- A recommendation on crew complement required for different types of work implemented in January 2007.

All Injury Frequency

Number of employee injury incidents per 200,000 hours worked



All Injury Frequency (AIF) is a standard Canadian Electricity Association (CEA) measure and is defined as the total number of employee medical aid and disabling injuries occurring in the last 12 months per 200,000 hours worked. Medical aid injuries are those where a medical practitioner has rendered services beyond the level defined as "first aid" and the employee was not absent from work after the day of the injury. Disabling injuries are those where the employee is absent beyond the day of injury.

Although AIF actual did not achieve target at year-end, the reduction from 2.6 to 2.4 (8 per cent improvement) is still notable and demonstrates the commitment and continuous improvement efforts that all staff have given to safety in the year. The target of 2.1 for fiscal 2007 was considered quite aggressive, and we are maintaining these efforts to move towards Best in Class performance, which is the goal for 2010.

BC Hydro is performing well in comparison with the Canadian utility industry norms. For AIF, the benchmark CEA composite presently sits at 2.8, while BC Hydro ended fiscal 2007 favourably at 2.4.

Safety

Severity

Number of calendar days lost due to injury per 200,000 hours worked

	F2003	F2004	F2005	F2006	F2007	F2008
Target	N/A	N/A	N/A	N/A	29	25
Actual	N/A	51.1	36.3	57.3	31.4	N/A

Severity is a standard CEA measure and is defined as the number of calendar days lost due to injury, per 200,000 hours worked. These definitions have been generally harmonized with the U.S. Occupational Safety and Health Administration standards for safety statistics.

The Severity results at year end were 31.4. While the targeted level of 29 was not achieved, the reduction to 31.4 can still be considered excellent and a noteable demonstration of performance improvement throughout the year. BC Hydro experienced very few serious incidents in fiscal 2007, and only five per cent of the injuries accounted for 46 per cent of the days lost that impacted the severity rate. This level of Severity positions us well as we move into fiscal 2008.

Severity (resulting from the more serious time loss incidents) remains a focus for the future. Our long term Severity goal is well below the CEA composite.

BC Hydro also conducts regular audits of our safety systems, and benchmarking of safety performance against other companies. In fiscal 2007, we commissioned an independent safety panel comparing BC Hydro's performance against best practices in high hazard industries, such as large manufacturing, oil and gas and utilities. A key overall conclusion by this panel was that: "the overall state of safety and health in BC Hydro is satisfactory especially considering the rough and hazardous nature of much of the work, but by world standards there is still room for substantial improvement."

The report of this independent panel provides a range of observations and recommendations that helped define seven short-term priorities for BC Hydro's Fiscal 2008 Safety Plan, including actions to improve incident investigation, risk assessment and safer designs, and emergency management.

Through these and other actions, we aim to continue our reduction in overall injury numbers and, more important, the occurrence of serious incidents.

Safety

Public Safety

Public safety is a key concern to BC Hydro. At our generation facilities, we develop and implement public safety management plans to remove or reduce the risk of public injury. We also demonstrate due diligence by identifying and mitigating known dangers and hazards associated with our operations. As part of increasing public awareness about electrical hazards, BC Hydro also creates advertising to warn workers of potential dangers, and promotes the Seven Steps to Electrical Safety for industrial workers and the general public. In fiscal 2007, BC Hydro delivered 350 electrical safety-related presentations to over 6,000 construction workers and emergency personnel. In addition, electrical safety educational materials were sent to 1,850 schools for presentation by teachers to 66,000 Grade 6 students.

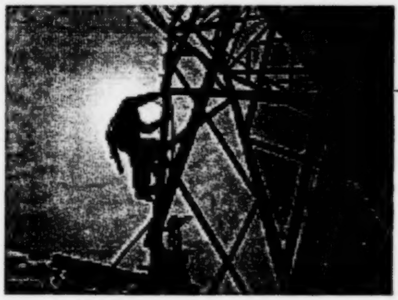
Metal theft represented a significant public and employee safety risk in fiscal 2007. In fiscal 2007, there were 141 metal theft incidents at BC Hydro owned facilities, including 114 substation breaches reported by BCTC. The remaining 27 metal theft incidents occurred at BC Hydro facilities, including district offices, yards, junction boxes and a microwave station. The cost for these incidents has been estimated at $2 million across BC Hydro and BCTC. More importantly, there were three public fatalities (one at a BC Hydro junction box, one at a customer dual radial vault, and one at a GVRD substation) and three serious injuries (one at a substation and one at customer owned vaults) related to suspected metal theft from energized facilities during the fiscal year.

In November 2006, BC Hydro's Chief Safety, Health and Environment Officer co-sponsored a joint BC Hydro/BCTC Task Force to assess the risks posed by metal theft across the electric system and to recommend mitigation strategies. While BC Hydro owns distribution substations, responsibility for security rests with BCTC under the Service Level Agreement. BC Hydro continues to mitigate the public and employee safety risks associated with metal theft through a combination of physical security enhancements, operational practices, regulatory and legal efforts, and public education. BC Hydro has produced an impact statement for use in metal theft prosecutions and presented information to local governments to support bylaws targeting metal theft.

Reliability

Our reliability of supply goal means ensuring all the infrastructure components are in place – and are operating optimally – to deliver energy to our customers. These components include generating facilities, the transmission network and the distribution network. Generating facilities include BC Hydro's heritage assets, IPPs and other contracted generators. To achieve our reliability targets, we will ensure our generation assets are maintained, manage our peak load supply reliability by minimizing the amount of unit outages during the winter peak period, and advance power acquisition processes to ensure incremental supply is in place as customers' requirements continue to grow.

Our Reliability for the Customer goal is to provide best in class reliability by customer segment. Customer reliability means that we are able to deliver an uninterrupted supply of electricity to our customers' satisfaction (recognizing that different types of customers have different expectations for outage frequency, outage duration, power quality, and outage communication). In order to meet customer needs and expectations for reliable service, both now and in the future, we need to understand and embed customer values in all of our business processes and change from a focus on the system to a focus on the customer so we can deliver expected customer service levels within a lowest life cycle cost framework.



Reliability

RELIABILITY OF SUPPLY

Water Supply and Reservoir Storage

Our largely hydroelectric generation system is heavily dependent on precipitation and reservoir storage operations to meet our financial targets. The water supply into BC Hydro reservoirs during fiscal 2007 was 88 per cent of normal for the year ending March 31, 2007.

During the first quarter of fiscal 2007 (April-June/06), significant energy purchases were made due to the low market prices during the spring freshet. During this period of system storage refill, the Peace River plants were run in preference to the Upper Columbia plants due to the higher probability of spill at Williston Reservoir. During this period, some purchases were necessary to meet domestic load requirements; however, at most times, energy sales and purchases were made to maximize value.

BC Hydro's total reservoir storage on March 31, 2007 was near the historic average level and was 2,500 GWh below the storage level one year earlier as reservoirs were managed to prepare for the large snowpack run off. The April snowpack is a good indicator of seasonal water supply. Based on snowpack conditions as of April 1, 2007, system inflows for fiscal 2008 are expected to be 109 per cent of normal, and system storage is forecast to refill to an above-normal level during the summer of 2007.

Reservoir Storage
(Gigawatt-hours)

	1984-2006 avg.	F2003	F2004	F2005	F2006	F2007
Total storage at year end (excluding Net Non-treaty)	13,050	11,460	11,718	15,320	15,550	13,043

System runoff conditions in fiscal 2007 were well below normal (88 per cent) due to below-average precipitation; this was down 10 per cent from the previous fiscal year. System Storage was equal to average at year-end and 2,500 GWh lower than the previous year. During the early part of fiscal 2007, the Peace River plants were run in preference to the Upper Columbia plants due to the higher probability of spill at Williston Reservoir. In the summer months, this generation preference switched to the Upper Columbia plants in order to support the level of Arrow Lakes Reservoir for recreation and fisheries reasons.

During the winter period there was above-average snowfall accumulation throughout the province, and system storage was drafted aggressively during the latter part of fiscal 2007 in anticipation of high runoff during fiscal 2008. Through much of this period, the Peace River plants were again run in preference due to the higher probability of spill, although operation of these plants was constrained for three weeks during the period of downstream ice cover formation.

During fiscal 2007, both BC Hydro and Bonneville Power Administration (BPA) partly refilled storage under the Non-Treaty Storage Agreement, and this will help to support the levels of Kinbasket and Arrow Lakes reservoirs in the summer months. In addition, three supplemental operating agreements (summer and fall storage agreements, and the Non Power Uses Agreement) with the U.S. were implemented to improve Columbia system reservoir levels, provide power benefits, and provide protection for Canadian fish.

Reliability

Winter Availability Factor

(Percentage)

	F2004	F2005	F2006	F2007	F2008
Target (critical peaking period Nov. 15 to Feb. 15)	N/A	N/A	N/A	95.75	96.20
Actual	94.81	95.08	96.77	96.24	

Winter Availability is a percentage rate of hydroelectric units in the system available to generate electricity (hours available for service/total hours) during the critical peaking period of November 15 to February 15. This measure excludes generation facilities of 12 megawatts and below.

Fiscal 2007 winter availability at 96.24 per cent was slightly higher than target of 95.75 per cent despite several major forced outages and adverse weather the system experienced this winter. This was achieved by managing discretionary outages carefully. From the previous year, fiscal 2007 results were slightly lower than fiscal 2006 due to a series of major forced outages the system experienced this past winter (GM Shrum G6 exciter related failures, Seven Mile G1 exciter related failure, and Ruskin G3 penstock leakage). In spite of these outages, this was still the second best result in the past four years because of carefully managing discretionary outages within the critical winter period.

Capital Projects

A number of significant projects related to our dams and generating facilities are underway in order to maintain and improve the reliability of our heritage assets and to meet the growth needs of our customers.

These projects address the following key drivers in our business:
- Reliability – projects that protect against any loss of existing equipment, systems and system capability.
- Consent to Operate – projects that protect BC Hydro's consent to operate today and over the long term (primarily environmental and social).
- Regulatory – projects that facilitate regulatory compliance.
- Risk Management – projects that identify and manage a variety of anticipated risks as good business practice.
- Cost Efficiency – projects that help reduce costs and/or protect existing revenues.
- Employee Safety – projects that identify and manage a variety of workplace risks/hazards in order to protect employees.
- Supply Expansion – projects that ensure BC Hydro responds effectively to requirements of customer load or growth.

The demand for electricity is increasing and we see an emerging gap between our domestic electricity supply and what is required by our customers.

In addition, our assets are aging and many need to be upgraded or replaced. BC Hydro has developed facility Asset Plans that detail the overall investment strategy for each facility, taking into account the facility role, issues, performance targets, risks, and growth opportunities. During fiscal 2007, BC Hydro submitted Asset Plans for G.M. Shrum, Mica, John Hart, and Ruskin as part of the Fiscal 2007/08 Revenue Requirements Application, in preparation for the significant capital expenditures that will be needed to maintain the reliability of the generating facilities in future years.

Reliability

Generator Stator Replacements

A stator is the stationary part of the generator in which the rotor turns. BC Hydro is in the process of replacing generator stators at Mica, GM Shrum, and Peace Canyon to reduce the risk of forced outages and ensure reliability of supply. At Mica, one stator was replaced in fiscal 2007, with the remaining three to be completed over the next three years at a cost of $78 million for all four stators.

Last year BC Hydro successfully completed the first of four planned stator replacements at Peace Canyon Generating Station. The extended outages for installation of the new Mitsubishi stators also provide an opportunity for turbine overhauls and replacement of generator instrumentation. Work has now begun on the second stator, and all four units will be refurbished by the fall of 2009 at a total estimated cost of $55 million.

At GM Shrum, construction for the first stator is currently scheduled to begin in this spring with the unit returned to service in the fall. The three units are expected to be replaced by 2011 at a total estimated cost of $68 million.

Coquitlam Dam

To ensure customer and local safety, BC Hydro monitors its facilities to promote public safety for B.C. residents. The Coquitlam Dam was built more than 90 years ago. Investigative engineering work completed in 2000 showed that the dam could be seriously damaged in a major earthquake, and therefore negatively impact public safety. BC Hydro decided to build a new dam immediately downstream of the existing dam. Construction began on the dam in January 2006 and is scheduled to be completed in the fall of 2007. In the interim, the reservoir level behind the dam was lowered to mitigate earthquake risk. The total expected cost of the project is $64 million.

Revelstoke Unit 5

The Revelstoke Generating Station was originally designed to be a six-unit generation station, but two bays were left empty. Approval has been received for design work, and BC Hydro is seeking regulatory approvals and consents, including work with First Nations, for the construction of the fifth generating unit. A Certificate of Public Convenience and Necessity (CPCN) application was filed with the BCUC in mid-April, 2007 and execution will begin in the fall of 2007 once all approvals have been received. The earliest possible completion date is 2011 with a total expected cost of $330 million.

Aberfeldie Redevelopment

BC Hydro shut down the 80-year-old Aberfeldie facility in November 2006 for public safety concerns related to possible penstock failure. In February 2007, we obtained regulatory approval to replace the current facility, which has a generating capacity of 5 megawatts, with a plant sized at approximately 24 megawatts. Site preparation work was complete in March 2007, and all work is progressing on schedule to meet a planned fall 2008 in-service date, with an estimated cost of $95 million.

Other Projects

BC Hydro is contemplating other large projects and is in various stages of identifying and defining the scope of the projects and their alternatives.

The Ruskin Dam was built more than 75 years ago and does not meet today's seismic standards. BC Hydro has lowered the Hayward Reservoir by approximately two metres, as an interim measure, to improve Ruskin Dam's seismic resistance. Construction is underway for the Crestblock reinforcement, an anchoring project to improve the dam's seismic standards. The Ruskin Generating Station is of the same vintage and requires significant capital expenditures for improvement. BC Hydro is completing a feasibility study to evaluate alternatives for rehabilitating or replacing the powerhouse.

Key components of the John Hart generating facility, built in 1947, are at end of their useful life and are in poor condition. BC Hydro is completing an identification phase study to evaluate rehabilitation and redevelopment options.

An external review of the operation and maintenance of spillway gates at various dams in BC Hydro's generation facilities revealed major deficiencies. Gate refurbishments are underway at John Hart, Strathcona, and Ladore dams on the Campbell River system and detailed engineering is ongoing at seven other high-priority sites in partnership with Hatch Engineering. In the interim, the spillway gate testing program has improved the overall spillway gate reliability across our system.

Customer Load Curtailment Program

In order to acquire additional short-term capacity and to provide more options and operating flexibility for meeting peak load demand requirements this past winter, BC Hydro developed a Customer Load Curtailment program that ran from November 2006 to February 2007. Several large industrial customers participated and committed to providing up to 152 megawatts (MW) of firm load curtailment on request. In late November 2006, when we faced our highest ever peak loads of over 10,000 MW, four customers were asked to curtail 97 MW and 51 MW, on two consecutive days. The customers received a payment for the curtailments based on a bid price that was competitive with our other resource options. One customer participated in a pilot load shifting program and reduced demand in the high load periods by shifting 60 MW from December 2006 through February 2007. Work will begin next year to explore the opportunity to expand the program going forward.

Integrated Electricity Plan

In March 2006, BC Hydro submitted the 2006 Integrated Electricity Plan (IEP)/Long Term Acquisition Plan (LTAP) to the BCUC. The IEP examined how BC Hydro will work with British Columbians to fill the forecasted supply-demand gap by conserving more through increased Power Smart activities and programs, buying more from IPPs, and building more by investing in Resource Smart upgrades to BC Hydro's existing facilities and/or investing in new options for adding generating capability. The IEP contains the LTAP which outlines a 10-year action plan to acquire the resources proposed in the IEP. The development of the 2006 IEP included an extensive public consultation process. In March 2007, the BCUC approved all of the actions BC Hydro requested in the LTAP.

Reliability

Calls for Power

This past fiscal year, BC Hydro continued to work collaboratively with the independent power production (IPP) industry. We are proud of the level of engagement that occurred in the 2006 Open Call for Power and the ultimate success of the call, both from the perspective of the IPP community (purchasing 7,000 GWh of energy), and the acceptance by the BCUC of the EPAs that were filed. In addition, we recognized the value of gaining IPP insights and in response, developed a group within the company to focus on continuing to foster and grow BC Hydro's relationship with the IPP industry.

We held over 10 individual meetings with small groups of IPPs to solicit input into the design of the Fiscal 2007 Call. We also worked closely with Independent Power Producers of B.C. (IPPBC) to shape the October 2006 IPPBC conference and co-designed an innovative panel that showcased BC Hydro staff working on the Calls and IPPs participating in the Calls to discuss what elements worked and what could be improved.

This year, we have also hosted a number of events that were geared towards enhancing BC Hydro's relationship with IPP industry and IPPBC by working more collaboratively and cooperatively to successfully implement the 2007 BC Energy Plan.

Fiscal 2006 Open Call for Power

The Open Call for Power was completed in summer 2006. BC Hydro awarded 38 Electricity Purchase Agreements (EPAs) to IPPs throughout the province for approximately 1,500 MW of capacity and 7,000 GWh/year of energy (4,200 GWh/year of firm energy net of attrition and outages). As a result of a parallel tender process, BC Hydro also awarded a contract to Brilliant Expansion Power Corporation.

2007 Call for Power

In its 2006 IEP/LTAP application, BC Hydro identified the need to proceed with a 2007 Call for Power to acquire 5,000 GWh/year of firm energy for delivery by fiscal 2015. In March 2007, the BCUC approved the call-related expenditures such that BC Hydro is proceeding with the design and preparation of draft terms for the 2007 Call which will serve as the basis for a BCUC-sponsored negotiated settlement process. BC Hydro plans to issue detailed call documents and formally launch the 2007 Call prior to the end of the 2007 calendar year.

Standing Offer

In the 2007 BC Energy Plan, the provincial government directed BC Hydro to establish a standing offer for clean electricity projects with a capacity of 10 MW or less. The Standing Offer Program will be launched in fiscal 2008 and will allow small projects to sell power to BC Hydro at a fixed price with standard contract terms and conditions.

Bioenergy Call

In the 2007 BC Energy Plan, the provincial government directed BC Hydro to issue an expression of interest followed by a call for proposals for electricity generated from wood residue and mountain pine beetle timber to encourage greater development and use of "home-grown," wood-fired electricity in B.C. The terms of the call were developed by BC Hydro in consultation with the Ministry of Energy, Mines and Petroleum Resources and the Ministry of Forests and Range, with input from the forest and energy sectors. More than 80 submissions have been received for this program, which was opened to generating plants in B.C. to use mountain pine beetle-killed timber, sawmill residues and logging debris as fuel.

Reliability

Technology

In fiscal 2007, BC Hydro brought an increased focus to identifying future investments that will improve organizational performance (e.g. safety, reliability and skill shortages) through the use of advanced technology. BC Hydro also identified a number of emerging technologies to research and evaluate such as use of robotics for transmission work to improve safety and advanced materials to improve the efficiency of electricity transmission and distribution and of electrical equipment. To further this work, a new position, Chief Technology Officer, was established at the end of fiscal 2007 to work across the organization to seek ways to more aggressively incorporate these and other advanced technology solutions to help meet the objectives of BC Hydro's business strategy.

Recognizing that changing and adapting to new technologies requires significant lead time, BC Hydro is at various stages of developing or implementing technology initiatives. Here are some examples that will help us to achieve our conservation goals and improve our system's performance:

- Smart Grid which incorporates elements of conventional and leading-edge power engineering, sensing and monitoring technology, information technology and communications to improve grid performance and to support an array of services for customers. This is a long-term objective, and one of the first steps in achieving this objective is the use of Smart Metering Infrastructure.
- Smart Metering Infrastructure (SMI) is one building block of a Smart Grid and provides a foundation for fundamental changes to electricity delivery and usage. In November 2006, BC Hydro launched the Conservation Research Initiative (CRI) and installed smart meters in 2,000 households in Campbell River, Fort St. John, Vancouver, Burnaby, North and West Vancouver. The purpose of CRI is to examine how adjusting the price of electricity at different times of the day influences energy use by residential customers. The benefit of this initiative is that it will allow customers to see their electricity usage in real time and how the price is adjusted to their time of electricity use. Smart meters are able to communicate with customers and BC Hydro offices at the same time, enabling better customer service and more timely information for customer inquiries.
- Spatial Asset Management is a system that facilitates tracking of condition and performance on an asset-by-asset basis through the use of Geographic Information Systems. This enables power line technicians and field crews to have a real-time map via a computerized system that contains information about assets that need repair or maintenance. It also helps them to find the exact location where work is required. The other benefits of this technology include providing better customer service and improving response time for operations and maintenance.
- Smart Signal is an advanced equipment monitoring and diagnostic system that tracks changes in equipment condition to help maintenance engineers at our generating facilities optimize and plan preventative maintenance. This provides us with regular feedback on the status of our equipment, and lets us know when we need to repair or service our equipment, and enables us to use our maintenance crews more efficiently.

Reliability

RELIABILITY FOR THE CUSTOMER

Distribution System Reliability Performance

BC Hydro was in the third quartile (based on all events, including storms, etc.) of Canadian and U.S. utilities for ASAI and CAIDI in 2006. This is due to a number of factors – we service a much larger territory with difficult terrain, we have more trees per overhead kilometre than most of the utilities in North America, and we have a higher proportion of overhead distribution lines than other utilities, which means that BC Hydro's distribution system is much more susceptible to inclement weather and other natural events. For fiscal 2007, it is expected that BC Hydro will be in the fourth quartile in terms of actual ASAI and CAIDI because of the severe impact of the winter wind and snowstorms on reliability performance. BC Hydro also measures customer reliability using customer focused indices that not all utilities use – Customer Experiencing Multiple Interruptions (CEMI) and Customer Experiencing Longest Interruption Duration (CELID). CEMI is used by a number of U.S. utilities including Progress Energy, Exelon and Kansas City Power and Light to track customer interruption frequency. Other utilities are also likely to use measures similar to CELID to track customer interruption duration.

BC Hydro has a cost-effective distribution system, however, we need to continue to invest in our system to maintain and improve our customer reliability, and are doing this through our Customer Based Reliability short term priority that embeds customer's expectations into our investment strategies.

The 2007 Storm Season

The winter of 2006-2007 was one of the most severe storm seasons faced by British Columbians in recent memory. Arctic fronts swept through the northern Interior and left 75 to 120 centimetres of snow. Pacific storms brought pounding rain and destructive winds across the Lower Mainland and Vancouver Island. In all, over 800,000 BC Hydro customers, or an estimated 1.6 million residents, experienced at least one power outage between late October and the middle of January.

Three quarters of all customer-hours lost to power outages in 2006-2007 was the result of these storms. For all the storms, however, the vast majority of affected customers (80%) were restored to service within 48 hours. This was mainly due to the hard work and dedication of BC Hydro and contractor crews that worked many long days to restore power, often under adverse conditions. In many ways, our customers were well served by those who removed fallen trees and limbs, made downed wires safe, snow shoed through the backwoods to access damaged lines, worked countless hours in the rain and cold, and ultimately restored power to customers.

As a result of our experiences this past winter, we have identified areas for improvement, such as updating our internal procedures and emergency preparedness plans, improving outage communication with our customers, and undertaking system improvements to increase overall reliability, to better prepare ourselves and the public in advance of next year's storm season.

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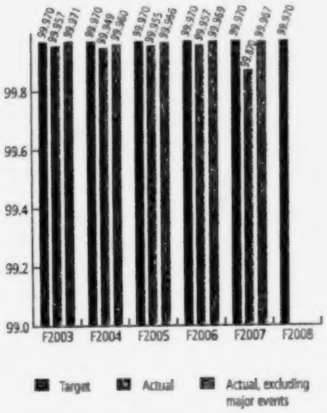
Reliability

Reliability and Storms

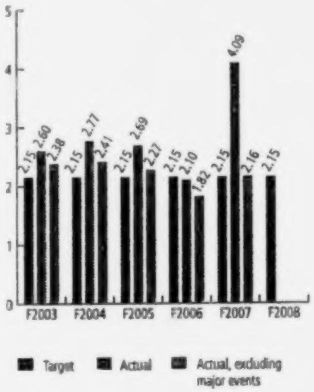
The winter of 2006-2007 was one of the most severe storm seasons faced by British Columbians. In total, 14.7 million of the 19.6 million customer-hours lost this year were storm-related. To put this in perspective, prior to this, the highest total number of customer-hours lost was 7.4 million in fiscal 2004 for the entire year.

Four of the five major storms affected communities from Hope to the Lower Mainland and Vancouver Island. At the height of the storm on December 15, the number of customers without power at any one moment peaked at 240,000. Over 170,000 customers in the Lower Mainland and Vancouver Island were affected by three of the storms, and some customers were without power for up to six days.

ASAI
Percentage



CAIDI
Hours



Reliability is defined as a combination of Average System Availability Index (ASAI) and Customer Average Interruption Duration Index (CAIDI). These indices are electric utility industry standards. Customers Experiencing Multiple Interrupts (CEMI) and Customers Experiencing Longest Interruption Duration (CELID) are new customer reliability measure to further support the reliability issue.

Reliability metrics are defined as:

- *ASAI refers to the percentage of time power is available.*
- *CAIDI refers to the average interruption hours per interrupted customer.*
- *CEMI-4 (customers experiencing multiple interruptions) refers to the percentage of customers experiencing four or more outage interruptions per year, excluding major events.*
- *CELID-6 - (customers experiencing longest interruption duration) refers to the percentage of customers experiencing the longest interruption duration of six or more hours, excluding major events.*

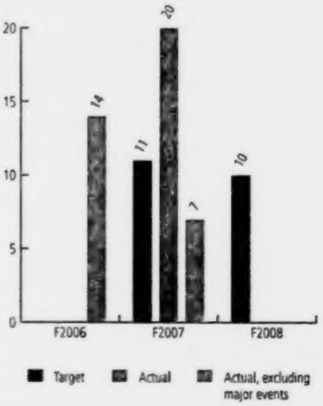
Both ASAI and CAIDI actual (including major events) and normalized (excluding major events) are below the annual target. When including major events, the results are lower due to a series of major windstorms sweeping across the Lower Mainland, the North and Vancouver Island during the months of October to January. The storms caused widespread disruptions to the distribution system, resulting in 2.5 million customer interruptions and 14.7 million customer-hours lost, more than what the system experienced during an entire year prior to fiscal 2007. The most severe windstorm during December 11 to December 15 interrupted power supply to more than 240,000 customers for 5.7 million lost hours. Excluding the storms, normalized ASAI and CAIDI are close to meeting their respective annual targets based on normal operating conditions.

BC Hydro was in the third quartile of Canadian and U.S. utilities for ASAI and CAIDI actual in fiscal 2006. Data for benchmark comparison in fiscal 2007 is not yet available. However, it is expected that BC Hydro will be in the fourth quartile in terms of ASAI and CAIDI actual because of the severe impact of the winter wind and snow storms on reliability performance.

Reliability

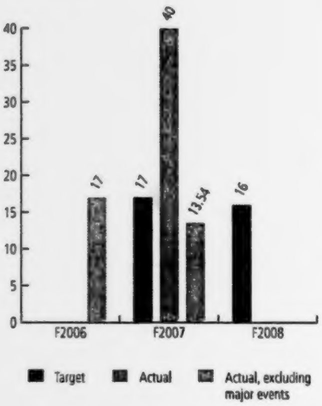
CEMI–4

Percentage



CELID–6

Percentage

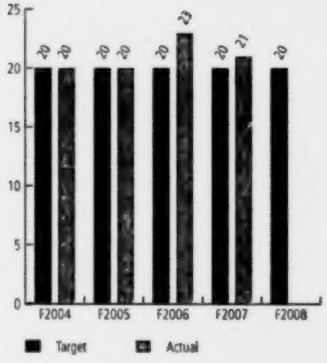


CEMI-4 and CELID-6 are customer-focused reliability measures implemented in fiscal 2007 to provide an intuitive understanding of the reasonableness of BC Hydro's reliability performance. At year-end, CEMI-4 is 7.30 per cent which translates into 127,000 customers having experienced four or more outages in fiscal 2007. CELID-6 is 13.54 per cent, which means that 235,000 customers have had an outage lasting six or more hours in fiscal 2007. Including the major weather events during October to January and March, 20 per cent or 347,000 customers have experienced four or more outages and 40 per cent or 701,000 customers have had outages of six hours or longer durations.

As fiscal 2007 is the first year of reporting CEMI-4 and CELID-6, it is expected that targeting setting will continue to be refined for several years, taking into consideration actual performance, initiatives to strengthen the distribution system and focused investment aligned with customer needs and expectations.

Asset Health Risk Index

Percentage



Asset Health Risk Index is defined as the percentage of Distribution wire assets rated in fair or poor health through an annual assessment of its asset health. Assets in good health are expected to perform their intended function for the next 10 years. Assets in fair health are those that will have an adverse impact on BC Hydro's operations within the next 10 years unless an appropriate management program is in place. Assets in poor health are those that require immediate attention and for which an active program is in place to mitigate the risk.

The Asset Health Risk Index improved in fiscal 2007 and was close to meeting target due to improved health in the overhead and underground distribution system offsetting declining health in vegetation brought about by the mountain pine beetle problem and trees weakened by wind and snow storms in the fall 2006 and winter 2007. Improved health in the overhead and underground distribution system is the result of applying a more rigorous assessment methodology as well as prioritized funding to address declining health in specific asset types in order to ensure system sustainability over the long term.

Reliability

Customer Growth

For the past five years customer growth in B.C. has increased year over year, with over 30,000 new customers added in fiscal 2007. In the North, the major driver is the oil and gas industry, while the South Interior is experiencing rapid growth in resort-style subdivisions and tourism. Vancouver Island is seeing major residential growth driven by retirement and resort communities and vacation homes. The Lower Mainland is facing a major construction boom, driven by major infrastructure projects like the 2010 Olympics, the Canada Line transit project, and major highway improvements along with a surge in residential housing.

Demand Growth (with and without demand-side management)

Percentage

	F2004	F2005	F2006	F2007
Growth Rate with DSM	2.6	1.6	2.7	1.3
Growth Rate without DSM	3.1	2.9	3.7	2.0

The growth rate is calculated as the year-over-year change in domestic load. "Growth rate with Demand Side Management" refers to incremental Power Smart impacts beyond implemented Power Smart programs.

The decline in the growth rates in 2007 relative to 2006 is due to slower growing sales in the industrial sector. As well, sales in the residential sector in 2007 did not grow as quickly in 2006.

Customer Additions, by Sector

Number

	F2005	F2006	F2007
Residential	22,259	27,096	28,741
Commercial and Light Industrial	2,246	2,451	3,306

Residential additions are the number of households; commercial and light industrial are tallied by number of accounts. The customer count excludes inactive accounts, multi-meter groups except the master, accounts with all meters removed and unmetered service when the revenue category is the same as the metered service.

Net additions account growth became stronger mainly due to the completion of apartments and townhouses in the beginning of this fiscal year. Stronger economic growth translated to into new business and new account growth in the commercial and light industrial sector.

Remote Community Electrification

BC Hydro wants to provide remote communities in B.C. with the opportunity to receive reliabile and sustainable electrical services. With the support and release of the 2007 BC Energy Plan, the program can now begin to plan for the electrification of up to 50 communities over the next 10 years and to look for ways and means of providing them with off grid power from predominantly sustainable sources. The Remote Community Power Smart program will also actively work with the communities to encourage energy efficiency. The Remote Community Electrification program creates an opportunity that will allow BC Hydro to build relationships with First Nations that previously had limited interaction with BC Hydro. It also creates an opportunity to further spread the benefits from our heritage resources to more communities.

Reliability

ELECTRICITY CONSERVATION & EFFICIENCY

Power Smart Strategy

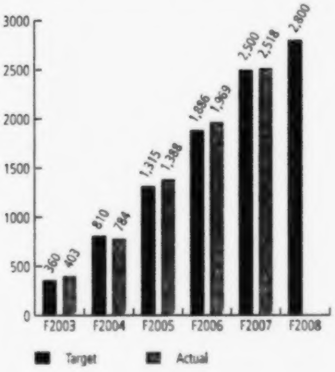
Power Smart has launched a multi-initiative effort to increase leadership on electricity conservation and efficiency and Power Smart's visibility and engagement in B.C. The 2007 BC Energy Plan also sets an ambitious but achievable target for BC Hydro to acquire 50 per cent of its incremental resource needs through conservation by 2020.

The corporate leadership initiative will showcase business customers that are leaders in energy conservation. In March 2007, Power Smart launched outdoor and print advertisements featuring the University of British Columbia, VanCity, Vancouver International Airport and Hudson's Bay Company. Additional print advertisements will showcase the latest winners of the Power Smart Excellence Awards. The community pillar will engage municipal government staff and residents throughout B.C., via the Turn it Off Challenge launched in April 2007 to encourage municipalities to save electricity in municipal buildings and facilities through behaviour changes. The leadership initiative will engage high profile spokespeople to raise the profile of Power Smart and the need for electricity conservation.

The social initiative will engage the lower-income sector. Power Smart has formed a partnership with Habitat for Humanity to save electricity in their new developments. The first project to launch is in Burnaby with a Power Smart Gold-certified low-income residential development. Future projects are located in Courtenay, Sidney and Victoria. Finally, the government initiative will target provincial government buildings, building standards and taxes. Energy audits of the B.C. Legislature and Jack Davis buildings were recently completed.

Demand-Side Management

Gigawatt-hours/year Cumulative



Demand-Side Management is defined as the rate at which annual gigawatt hours (GWh) are being saved as a result of economic demand-side management conservation, energy efficiency and load displacement) since fiscal 2002.

Fiscal 2007 performance is marginally higher than target. Slightly higher GWh savings achieved in the Industrial and Residential sectors partially offset by slightly lower GWh savings in the Commercial sector.

Targets are developed and results are compared based on past performance.

Customer Electricity Intensity

Kilowatt-hours/account year

	F2004	F2005	F2006	F2007
Residential	10,945	10,610	10,842	11,049

Residential electricity intensity is calculated by dividing consumption in the residential sector by the average number of residential accounts over the fiscal year. Actual billed use per account for fiscal 2007 was 11,049 kWh/account, which was 128 kWh/account or 1.17 per cent above forecast, and 207 kWh/account or 1.91 per cent above the actual billed use per account in fiscal 2006. Use per account is rising mainly due to increased penetration levels of plug-in load such as computers and home entertainment equipment

Reliability

Conservation Research Initiative

The Conservation Research Initiative is a 12-month pilot program involving 2,000 participants that began on November 1, 2006. The program helps customers to conserve energy and use it more efficiently through the use of smart meters in their homes to track their electricity consumption. The pilot helped us to gather information through focus group and employee sessions, and to engage groups that represent different rate classes. The information gained will be used by other groups looking at BC Hydro's long-term rate strategy and conservation goals to help address the gap between electricity supply and demand.

The results of this project will also help us to roll out our smart metering initiative. This initiative proposes replacing 1.7 million meters at customers sites with 'smart meters' and adding 130,000 advanced feeder/transformer meters across our distribution system. This project will help us to incorporate the conservation targets and principles of the 2007 BC Energy Plan.

Conservation Awards

In May 2006, BC Hydro Power Smart was awarded the ENERGY STAR™ Award for Sustained Excellence at the ENERGY STAR Market Transformation Awards in Toronto. Hosted by the Natural Resources Canada (NRCan) Office of Energy Efficiency, the Awards recognized organizations that surpassed the competition in offering consumers the most energy-efficient product, technology or service available.

BC Hydro was recognized for our commitment to continually increase the market adoption of ENERGY STAR products and our energy conservation achievements over the past 15 years through Power Smart. ENERGY STAR is an internationally recognized symbol that identifies the most energy-efficient products.

Power Smart also received a silver medal from Marketing Magazine for the 2006 seasonal light-emitting diode (LED) light campaign in the Public Service Campaign – Print/Out of Home/Outdoor category.

Power Smart Leadership

The Power Smart Leader designation is granted to organizations that demonstrate exceptional energy efficiency leadership within their industry. BC Hydro aims to join the list of these companies who are Power Smart Leaders: the Hudson's Bay Company, Kwantlen University, the University of British Columbia, Abbotsford School District 34, Canadian Autoparts Toyota Inc., the City of Richmond, Fairmont Hotels & Resorts, VanCity, and the Vancouver International Airport. Each year Power Smart will recognize, and add to the listing of Power Smart Leaders by recognizing those organizations that receive a Power Smart Excellence Award.

This year, BC Hydro established the Lead by Example group within Power Smart, with the goal of making BC Hydro a leader within the province in implementing processes, programs and technologies that conserve energy in a cost-effective manner. Lead by Example activities already underway include:

- A cross-company employee committee that engages employees to make energy conservation part of their everyday business.
- A lighting and HVAC upgrade program in BC Hydro's generating facilities. In fiscal 2007, the GM Shrum and Peace Canyon plants were retrofitted with an estimated savings of 1 GWh/year. Several more facilities are scheduled for retrofitting next year and will add another 2 GWh/year of savings.
- Voltage control system upgrades were completed at three substations on Vancouver Island resulting in 16.5GWh/year energy savings.

Reliability

Power Smart Business Programs

The Power Smart Partners Program for large industrial customers moved from the pilot phase to full implementation this year. Changes were made to the program to complement a new conservation rate.

In order to capture more challenging and costly energy efficiency opportunities, Power Smart recently launched two pilot programs to test new approaches to conservation. A tiered incentive pilot under the Power Smart Partners program will offer incentives of 2.5 and 3.5 cents/kWh, rather than the standard 1.5 cents/kWh, to eligible projects with deeper savings and longer paybacks from Power Smart leaders.

In May 2006, Power Smart presented awards to 19 customers and trade allies at the Power Smart Excellence Awards forum and dinner. Companies that received awards included Canadian Tire, Richmond Home Hardware, Vancouver Wharves and Whistler Blackcomb.

Power Smart Residential Programs

Power Smart's Fall Lighting Campaign ran from October to December 2006 and featured rebates on new, energy-efficient ENERGY STAR™ light fixtures, lamps and compact fluorescent lightbulbs (CFLs).

Customers participated in Power Smart lighting events at local retailers and received instant rebates on the purchase of ENERGY STAR lighting fixtures and ENERGY STAR CFLs.

In March 2007, Power Smart launched an energy efficient computer power supplies (80 Plus) initiative under the Product Incentive Program. The program is intended to encourage manufacturers to improve energy efficiency of computers and servers by installing highly efficient power supplies and offering incentives to manufacturers.

Power Smart Students Program

BC Hydro's Power Smart Students Program educates the consumers of tomorrow on the value and benefit of energy conservation and sustainability. The School Campaigns and Movie-Making program (Grades 4 to 7), and Energy Reviews program (Grades 10 to 12) help to build a conservation culture by encouraging students to take action in their schools. The program is also part of our commitment to contribute to the communities in which we live and work.

In fiscal 2007 Power Smart Students program workshops were delivered in 39 school districts across British Columbia. Over 350 schools participated in the program with over 45,000 students receiving the energy conservation and sustainability messages. In the Power Smart Students Energy Reviews program, students made presentations outlining potential energy conservation opportunities within the schools to 18 school district Boards of Trustees. The student presentations motivated specific school districts to consider undertaking energy efficiency-related projects, of which many received funding and approval.

Reliability

Working with Developers and Government

In March 2007, Power Smart announced its support for Dockside Green, a green multi-family residential project in Victoria that uses a triple-bottom line approach to development. The project is being developed on fifteen acres of former industrial land, with a mix of residential, office, retail and industrial space. Dockside Green aims to be an ecologically-restorative community, and represents the biggest development of city land in Victoria's history.

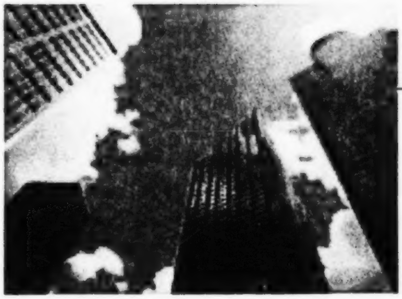
In February 2007, the B.C. Government's budget narrowed the PST exemption from all windows to include only energy-efficient windows. This is one example of a Power Smart program working in conjunction with tax policy and regulation to transform a market to energy efficiency. Power Smart also developed a revised and more aggressive strategy to support government energy efficiency policy at the federal, provincial and municipal levels through policies like the 2007 BC Energy Plan.

The Power Smart New Home program has signed Memorandums of Agreement (MOAs) with builders to construct 1,450 Power Smart Gold residential units before December 2007. This is just shy of the Ministry of Energy, Mines and Petroleum Resources target of 1,500 units but will lead to substantially increased program exposure as these homes are showcased in coming months.

Financial

BC Hydro's financial results are affected by the success of our trading activities, the maintenance of our aging assets, the growth of electricity use across the province and the price of purchased energy from the market or independent power producers required to meet it. We are planning and investing wisely to ensure that we can continue to provide a reliable source of electricity at low cost, for future generations, as well as meet our financial targets.

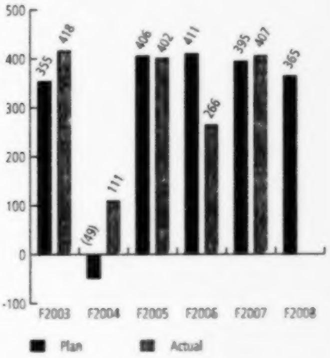
The highlights of this year's financial performance are included on the next few pages, as well as in our financial reporting, which begins on p.79.



Financial

Net Income

Dollars (in millions)



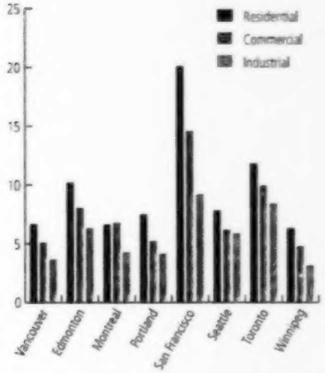
Net income is defined as total revenue less total expenses after regulatory account transfers, and represents the net impact of key economic and business factors that affect BC Hydro's performance. Regulatory account transfers reflect the financial impact of the factors beyond BC Hydro's control (such as water volatility, market prices, etc.).

For fiscal 2007, BC Hydro's results benefited from higher customer rates, increased consumption, higher energy trading income, lower energy costs, and lower amortization expense. Water inflows were 10 per cent lower than the prior year (and 12 per cent lower than average) resulting in lower hydro generation than in the prior year, however required energy purchases were made at a lower unit cost per megawatt hour (MWh) resulting in a reduction in the total cost of energy compared to the prior year.

BC Hydro's allowed rate of return for fiscal 2007 was 13.10 per cent, as approved by the BCUC in its rate decision of November 20, 2006, which translates to net income of $395 million. The allowed return on equity has been calculated to equal, on a pre-income tax basis, that of the most comparable investor-owned utility.

Price Competitiveness

Canadian Cents per Kilowatt Hour



Note: The source for all data is Hydro Quebec's "Comparison of Electricity Prices in Major North American Cities". The rates in this publication are those that were effective on April 1, 2006, but BC Hydro rates have been adjusted to reflect net rate increase of 3.64 per cent (including a two per cent rate rider) effective February 1, 2007 as approved by the BCUC. BC Hydro's rates are among the three lowest in North America. Comparator utility data have been adjusted to September 30, 2006 for known rate changes (based on BC Hydro's best estimates) and for movements in exchange rates.

Selection of peer comparison set based on the jurisdictions used by the BC Progress Board to assess the competitiveness of British Columbia.

Energy Trading Activities

Trade revenues were $1,406 million, a decrease of $178 million over last year's revenues of $1,584 million. This decrease was due in large part to a 19 per cent reduction in the average electricity sales price of $64/MWh in fiscal 2007, compared to $79/MWh in fiscal 2006, offset by a 12 per cent increase in electricity volumes totalling 33,372 GWh. In addition, gas trade revenues marginally decreased as a result of a 19.9 per cent increase in gas sales volumes which totalled 7,924 GW, offset by a 17.6 per cent decrease in the average gross sales prices for gas. The decrease in energy market prices was largely the result of low natural gas prices resulting from lower demand for natural gas due to mild weather in the early months of 2006 and no large supply interruptions such as the hurricanes of the prior year. Trade energy costs of $1,080 million decreased 20 per cent primarily as a result of lower electricity and gas unit costs. This was offset by a 13 per cent increase in volumes purchased.

Financial

Regulatory

Fiscal 2007 was a year of significant regulatory activity for BC Hydro with three major applications submitted to the BCUC for review: the Fiscal 2007/2008 Revenue Requirements Application (RRA), the 2006 Integrated Electricity Plan/ Long Term Acquisition Plan and the Rate Design Application (RDA). Details of these and other noteworthy filings are provided in the chart below.

Application/Filing	Details	Outcomes
Fiscal 2007/2008 Revenue Requirements Application (RRA)	BC Hydro filed its RRA for fiscal years 2007 and 2008 in May 2006 and received an interim rate increase of 4.65 per cent effective July 1, 2006.	BC Hydro successfully reached an agreement with customers and stakeholder representatives through a BCUC-sponsored Negotiated Settlement Process that set final rate increases of 1.54 per cent for July 1, 2006 to January 31, 2007 and a further 2.1 per cent effective February 1, 2007. Included in the 2.1 per cent increase is a 2 per cent rate rider that will be used to recover the accumulated deferral account balances that resulted largely from higher energy costs due to the low water inflows and higher than forecast market prices in fiscal years 2005 and 2006. Customers saw a net one per cent reduction from the interim rate increase on February 1, 2007 and received a total refund of approximately $50 million in early 2007 to adjust for higher interim rates that were in place from July 1, 2006 to January 31, 2007. Even with a net rate increase of 3.64 per cent, BC Hydro still provides electricity at one of the lowest rates in North America.

continued →

Financial

Application/Filing	Details	Outcomes
2006 Integrated Electricity Plan/ Long Term Acquisition Plan	This application was filed in March 2006 providing a 20 year plan describing how BC Hydro will meet the anticipated electricity needs of its customers (IEP) and an action plan to acquire resources over the first 10 years (LTAP). The application was subject to a comprehensive regulatory review culminating in an oral public hearing that took place between November 22, 2006 and January 12, 2007. BC Hydro sought requests for certain expenditures to take steps to acquire resources identified in the LTAP and received approval for them from the BCUC on March 15, 2007. The reasons for this decision and the remaining orders and comments sought in the IEP/LTAP application were issued on May 11, 2007.	Approval for the LTAP funding requests was received from the BCUC on March 15, 2007. Approval of the LTAP funding requests allows BC Hydro to proceed with its resource and acquisition plans to meet the growing energy supply shortfall.
Rate Design Application (RDA)	Following extensive consultation with customers and stakeholders, BC Hydro filed its first RDA since 1991 on March 15, 2007. The primary purpose of this application is to update BC Hydro's rates and terms and conditions, with the main focus on fairness, efficiency and simplicity. The principal proposals for BC Hydro include rate rebalancing, rate restructuring; updating the terms and conditions in our tariff; and simplifying our distribution extension policy; and phasing out the Electric Plus rate.	The BC Utilities Commission has determined that the Rate Design Application will be reviewed at an oral public hearing to start on July 9, 2007.

continued →

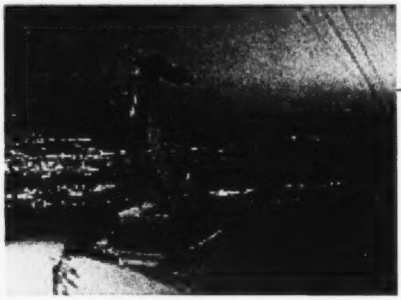
Financial

Application/Filing	Details	Outcomes
2006 Open Call for Power	BC Hydro submitted 38 contracts to acquire 6,471 GWh/year of energy from Large Projects and 654 GWh/year of energy from Small Projects in a section 71 filing to the BCUC on August 31, 2006. Accompanying this filing was a Report addressing the evaluation process for the tenders received and the outcome of the 2006 Call, including call award volumes, cost-effectiveness and rate impact.	On September 21, 2006 the BCUC accepted all of the contracts. Acceptance of these contracts by the BCUC enabled the successful IPPs to move forward with developing their projects to meet the in service target date of November 1, 2010.
Aberfeldie Redevelopment Project	Information on the Aberfeldie Redevelopment project was submitted to the BCUC in late fall of 2006. The BCUC determined that a Certificate of Public Convenience and Necessity (CPCN) would be required for this project and a written regulatory proceeding was held in December 2006 and January 2007.	The BCUC issued its decision granting a CPCN for Aberfeldie on February 9, 2007. Approval of the CPCN allowed construction work on the Aberfeldie project to proceed in February 2007.
Alcan Amended Long Term Electricity Purchase Agreement (LTEPA+)	This electricity purchase agreement was filed with the BCUC for acceptance under section 71 of the *Utilities Commission Act* on November 1, 2006. An oral hearing took place between December 6 and 11.	The BCUC issued its decision on December 29 rejecting the electricity purchase agreement and thus declaring the agreement unenforceable. The BCUC did not consider the contract to be cost effective with respect to the pricing provisions and the value of benefits to ratepayers. BC Hydro is now focused on negotiating a new agreement with Alcan. If negotiations are successful, the new agreement will be submitted to the BCUC for review and acceptance.

Customer Satisfaction

One of BC Hydro's short-term priorities is to lead other companies in offering extraordinary value and service to our customers. This goal challenges BC Hydro to lead not just other utilities, but other companies recognized for leadership in customer service.

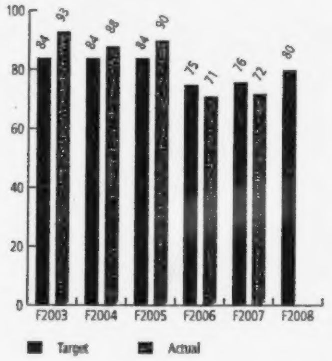
BC Hydro has three types of customers – residential, commercial and industrial. Each customer group is important, and we measure our progress as a company through a customer satisfaction performance measure defined as the "percentage of highly satisfied customers."



Customer Satisfaction

Customer Satisfaction Rating

Percentage



Customer Satisfaction Rating fiscal 2003 to fiscal 2005:
Customer Satisfaction Rating was a composite indicator with thirty per cent of the measure drawn from responses in a random survey of all customer segments and seventy per cent drawn from surveys with customers who had a recent service interaction with BC Hydro.

Fiscal 2006 and fiscal 2007:
The Customer Satisfaction Rating measures the percentage of customers which score BC Hydro 8, 9 or 10 ('highly satisfied' as ranked on a 10-point numerical scale) in response to a single "overall satisfaction with service" question. Responses from customers in three major segments (residential, small/medium business and key accounts) are weighted equally to determine the final composite rating.

With sampling margin of error of 4.2 per cent included, the actual results are at target level.

BC Hydro was ranked third in Canada in an omnibus survey conducted in September 2006 to measure customers' satisfaction with their utility provider.

Customer Satisfaction Rating in fiscal 2008:
A new Customer Satisfaction metric has been adopted for fiscal 2008 onward. The rating will be based on an improved methodology using a four-point verbal scale (very satisfied, satisfied, dissatisfied and very dissatisfied). The targets for fiscal years 2008, 2009, and 2010 reflect this change.

Note: BC Hydro strives to continually improve our Customer Satisfaction survey results however it is difficult for us to demonstrate improvements year-over-year when changes are made periodically to how this metric is measured.

Customer Satisfaction Results

This year, customer satisfaction surveys were completed for all customer segments: residential, small and medium business (SMB) and key accounts. The sample sizes for the customers segments were: residential (773), SMB (600) and key accounts (230). Overall customer satisfaction ratings were based on the percentage of customers who scored BC Hydro 8 to 10 in response to the single question: "Thinking over the past year, how satisfied are you with the "overall service" you have received from BC Hydro?" (where one means "completely dissatisfied" and 10 means "completely satisfied"). Then, Customer Satisfaction (CSAT) is reported by averaging the results of the three customer segments.

BC Hydro achieved 72 per cent CSAT, which is within the margin of error of the fiscal 2007 target of 76 per cent. Results were driven by key account customer satisfaction rebounding from 62 per cent in the survey conducted in September 2006 to 72 per cent in the survey conducted at the end of fiscal 2007. The 10 per cent increase in key accounts is considered significant. We also experienced continued stability in residential and small and medium business customers' satisfaction levels.

The increase in the key account customer satisfaction is attributed to an ongoing strengthening of customer relationships through increased frequency of contact that resulted primarily from collaboration with customers to implement Stepped Rates and a challenging storm season. Customers were appreciative of our efforts to keep them informed about restoration progress.

In the fall of 2006, BC Hydro launched a public education and awareness effort to increase public understanding of B.C.'s future electricity needs. The campaign highlighted the growing gap between electricity supply and demand in B.C., and featured BC Hydro's plan to conserve more, buy more from independent power producers and build more by reinvesting in our existing heritage assets and considering a new large-scale option. The communications campaign contributed to improved customer understanding of the issues facing BC Hydro and the province, and our overall score in communicating with customers.

Customer Satisfaction

New Customer Satisfaction Index

A new customer satisfaction methodology was adopted during the fourth quarter for surveying, which was used with the previous method, to establish a new baseline for future years.

As part of this new methodology, customers now rate BC Hydro using the categories of "very satisfied", "satisfied", "dissatisfied" and "very dissatisfied". As well, customer satisfaction is now reported based on a metric which is an equally weighted "index" of the key drivers of customers' satisfaction with BC Hydro. These drivers are:

- providing reliable electricity,
- value for money,
- commitment to customer service,
- acting in the best interest of British Columbians, and
- efforts to communicate with customers and communities.

These drivers are indicated by our customers as being important to them in the way we serve them. BC Hydro's ability to provide reliable electricity remains a key strength, and is rated highest among the drivers, despite high profile outages in recent months. However, the survey found that when a residential or small or medium sized business customer perceives that they have experienced more than two outages within the past six months, there was a significant deterioration in overall satisfaction with BC Hydro. Key accounts experienced this shift in perception after just one outage.

Outage Communication Initiative

BC Hydro's Outage Communication Initiative looks at ways to improve what and how we communicate with our customers before, during and after an outage. This helps us to improve customers' satisfaction overall. Although we have received high scores for overall customer satisfaction, scores tend to drop for communication around outages. Previous research and the experience of last winter's storm season shows us that customers expect to receive useful, accurate information in a timely manner to help them make personal and business decisions to mitigate the impacts of an outage.

This year, employees worked to improve the accuracy of the estimated time of restoration and providing consistent information to customers in all forms of communication. We also provided information to educate customers about our restoration process, the steps that they could take to prepare for outages and what to do when the power goes out. We plan to make changes and investments to increase our call capacity, provide more training to our customer service representatives, and use new technologies to our advantage to prepare for future outage situations and storm season.

People

In order to accomplish our long-term goals and short-term priorities, BC Hydro has to ensure it has the right focus on people. This means having the right employees in the right role, with the right skills at the right time, working on the right priorities. This is a challenge in today's competitive labour market. BC Hydro is focused on building, attracting and retaining the talent pool, and on increasing employee engagement to support the achievement of our goals.

Our relationships with people in the communities in which we live and work are important to BC Hydro. Encompassed by the social side of our business, BC Hydro is committed to investing in our communities, and building relationships with stakeholders and First Nations.

People

Workplace

BC Hydro's Human Resources strategy is designed to achieve our long term goal of becoming a 'Top Employer for Generations'. As a top employer, we aim to develop a work environment that enables us to attract and retain skilled employees to meet our business goals.

Our key priorities in fiscal 2007 focused on building the foundational elements necessary to achieve our goal. They were:

- an expanded recruitment model including outreach to national and international talent pools and diverse candidates,
- more training, mentoring and better orientation of new employees,
- further leadership development and succession planning,
- continued focus on performance management and career development.

Productive Engagement

Score Out of Five

	F2006	F2007	F2008
Target	N/A	N/A	3.5
Actual	3.33	N/A	

BC Hydro has moved the annual Employee Survey from February to November of each year to better align the timing with other work demands. The survey was not conducted in fiscal 2007 as there was insufficient time to take action to demonstrate meaningful results since the survey was last conducted in February 2006.

In fiscal 2006, BC Hydro made a decision to use Productive Engagement as our key Employee Survey measure, replacing the previous Employee Commitment Index (ECI) score. The ECI is limited in that it focuses on our employees' intention to stay at BC Hydro (which we already know is strong), whereas Productive Engagement shows how employees are engaged (have the motivation, resources, alignment and capability) to do their work well. Productive Engagement is also a measure consistently recognized as a benchmark for Top Employers and will facilitate BC Hydro in reaching this goal. BC Hydro's Productive Engagement score in fiscal 2006 was 3.33 (Work Canada Benchmark is 3.50) and our target for fiscal 2008 is to increase this score to 3.5.

Workforce

Our ability to deliver on our business goals and priorities depends on the strength of our people. Like other employers faced with an aging workforce and a highly competitive external labour market, we place a high priority on the attraction and retention of employees.

During fiscal 2007, BC Hydro implemented an enhanced recruitment model in order to address existing and predicted shortages in critical roles across the organization. The enhanced recruitment model included using internal strategic recruiters to focus on attraction, sourcing and hiring of people for hard to fill roles such as engineers, project managers, and skilled trades. This initiative has strengthened organizational capability by helping to ensure we have the right people in the right roles.

Other attraction initiatives included launching an Employee Referral Program, implementing sourcing strategies to attract more diverse talent, partnering with outside agencies for recruiting of international skilled workers, and challenging and expanding qualifications to enable us to draw from broader talent pools.

People

During the year, BC Hydro also created a "Trades Trainee" position. The position involves providing candidates with up to two-years of job-related experience and training. This in turn will provide a recruitment channel and enhanced career path for Power Line Technicians (PLTs) and enable us to support crews in doing the work while we continue to fill current vacancies. The program will also help to increase the number of candidates into the PLT apprentice program.

Retaining current employees, at all career stages, has also been a priority. Mentoring opportunities have been created for individuals who are approaching retirement to support knowledge transfer to less senior staff. Employees in the earlier and middle stages of their careers are being encouraged to use their Personal Development Plans to support career pathing, and succession plans have been developed for key positions. We are also developing internal career planning and personal coaching skills for employees to have fulfilling and engaging careers at BC Hydro.

Attrition

	F2003	F2004	F2005	F2006	F2007
Overall rate of attrition	5.4%	5.5%	6.5%	6.5%	6.9%
Overall attrition (number of employees -based on regular status employees)	290	195	233	241	267
Percentage retired	3.0%	4.0%	4.1%	4.0%	4.0%
Number retired	162	143	149	147	154
Percentage resigned voluntarily	1.2%	0.7%	1.5%	1.6%	2.1%
Number resigned voluntarily	63	26	53	60	82
Percentage terminated for other reasons, were dismissed, or passed away	1.2%	0.7%	0.9%	0.9%	0.8%
Number terminated for other reasons, were dismissed, or passed away	65	26	31	34	31
Number of new hires (regular status employees)	120	132	149	272	443
Number of regular status employees eligible to retire (during fiscal year)	679	570	626	652	722
Retirement Uptake (number)	162	143	149	147	154
Retirement Uptake rate (percentage)	23.9%	25.1%	24.0%	22.5%	21.3%

All performance measures are within the expected range. The slight increase in overall attrition rate in fiscal 2007 is based on a larger number of voluntary resignations. The number of annual new hires has significantly increased since fiscal 2005 as a result of BC Hydro's recent growth as well as continued enhanced recruitment efforts to fill outstanding vacancies.

People

Diversity

BC Hydro is committed to developing a diverse workforce that is representative of the communities we serve within B.C. and to strengthening our inclusive workplace.

Our objectives are to:
- Build a diverse talent pool supply,
- Ensure an inclusive recruitment process is supported by proactive outreach to diverse candidates,
- Strengthen a respectful and inclusive workplace culture.

Our recruitment model changed in fiscal 2007 to support the changing demographics and demands of our business. Additional time and effort has been spent on seeking a broader talent pool, including efforts to attract women to roles in key trades, professions and management throughout the organization, and sourcing internationally trained professionals. BC Hydro is working with several associations and organizations to help remove the obstacles that exist that would enable these individuals to gain employment related to their education and training, as often these individuals are trained in occupations and professions where there are shortages.

In fiscal 2007, BC Hydro developed an Aboriginal education and employment strategy. The Aboriginal community is under represented in the workforce and is one of the fastest growing segments of the population in Canada. Our strategy involves a long term approach to building internal cross-cultural awareness and recruitment outreach with Aboriginal communities in British Columbia. This strategy acknowledges the need to support educational and training programs to build the capacity of the Aboriginal talent pools for BC Hydro and B.C. more broadly.

Leadership Development

In fiscal 2007, BC Hydro continued its focus on improving leadership capability within the organization. Over 500 participants have completed Leading for Results, a development program created two years ago to strengthen the business, stakeholder engagement, and customer service skills of BC Hydro leaders. In November 2006, this BC Hydro leadership program received an Excellence in Training award from the Canadian Society for Training and Development. Leading for Results II, which focuses on developing leadership and coaching skills in managers was developed and piloted in fiscal 2007. Supervising for Results which provides supervisory and frontline leadership training for BC Hydro crew chiefs and team leaders has also been developed and launched. A total of 127 frontline leaders attended Supervising for Results in 2007.

Employee Wellness

Having healthy employees is a priority for BC Hydro. The goals of BC Hydro's employee wellness strategy are to support employees' well being, protect BC Hydro from rising health care costs and create an environment where employees are healthy and can perform their work to their full potential.

The health and wellness initiatives in fiscal 2007 included:
- completion of a situational assessment of health risks and general trends within the organization which fuelled the development of a wellness framework that will target priority health issues including mental health, work life quality, chronic disease prevention and musculoskeletal health,
- development of a new mental health training program for managers and employees,
- increased manager and employee awareness of health and wellness programs and services,
- ongoing delivery of comprehensive wellness programs services including: health screens, health education workshops, and one-on-one lifestyle counselling,
- ongoing delivery of health services including respectful workplace training, return to work and the Employee and Family Assistance program.

People

CORPORATE CITIZENSHIP

Community Investment

In fiscal 2007, BC Hydro supported a variety of community investment initiatives and programs throughout the province. We contributed $1,225,954 in donations and $949,000 in sponsorships towards 526 projects. BC Hydro donations included non-profit initiatives supporting environment and education, and scholarships to 100 students across B.C. The sponsorships focused on raising customer awareness of Power Smart and provided opportunities to educate the public on four main areas: community initiatives, energy conservation, sustainability, and technology. These community investment requests were aligned to our purpose and long-term goals and enhanced long-term relations with our customers and communities around B.C.

As part of our donations program, we invested in the "On the Road"and "Super Science Club" programs, which engage elementary students across B.C. through interactive science education that teach energy conservation messages and lessons. BC Hydro contributed $40,000 and $10,000 in-kind for year one of a three-year partnership.

We also committed to a partnership with The Environmental Youth Alliance "Workplace Conservation Online" program, providing $10,000 a year over the next three years. The organization enables B.C. businesses and other organizations to track and reduce the environmental impact of their daily operations, and the initial program modules cover waste, paper, lighting and transportation.

Corporate / Regional Donations

	F2003	F2004	F2005	F2006	F2007
Amount Allocated (Dollars, in thousands)	1,000	1,000	1,035	1,005	1,226
Percentage Allocation					
Arts and Culture	3	7	5	3	N/A*
Education	0	2	14	10	17
Environment	8	10	4	5	6
United Way	21	17	17	14	6
Aboriginal	12	7	8	13	N/A*
Regional	27	22	24	26	39
Scholarships	16	10	13	15	10
Employees' Community Services Fund	11	10	10	10	10
Community Investment	3	15	7	5	11

**Arts and Culture, and Aboriginal were considered a separate category in the past, but in fiscal 2007 these allocations were integrated into the main funding areas.*

In fiscal 2007, BC Hydro introduced new criteria used to award Corporate and Regional donations. This has resulted in changes to the Arts and Culture, and Aboriginal categories, noted above. Preference continued to be given to initiatives that included aboriginal, arts and culture elements that support youth up to 24 years of age, engage and support Aboriginal Peoples, and involved communities where BC Hydro has facilities, operations or impacts and involve science, technology and engineering.

For fiscal 2008, community investment donations and sponsorships will have the same funding areas: community initiatives, youth and education, environment and sustainability, people and leadership. The preference categories will be similar to fiscal 2007, however, fiscal 2008 donation initiatives are planned to have a stronger customer focus that include marketing and leveraging opportunities similar to sponsorships.

People

Employees and Retirees' Social Commitment

The BC Hydro Employees' Community Services Fund (HYDRECS) is an employee and retiree-managed fund that supports Canadian charities in the health and social services sector. Employees made donations to a total of 647 charities through the fund. Total contributions made through the HYDRECS fund by employees and retirees for fiscal 2007 were $880,000. Additional support for local charities is provided through the organization's Community Growth and Relationship Funds.

The BC Hydro Power Pioneers Association, with 15 branches throughout British Columbia, maintains a membership of over 2,000 retired BC Hydro employees and their spouses and represents almost 5,000 Hydro retirees. Their motto, "Continuing a Lifetime of Service to our Communities," was demonstrated by over 80,000 recorded hours of community service in the 2006 calendar year for many local charities and service clubs.

Some of their provincial partnership projects include Youth Community Service Awards, Regional School Science Fairs, B.C. Seniors Games, Seniors Safety and Crime Prevention, Literacy Awareness Project and B.C. Children's Hospital. During 2006, they raised a total of $53,000 to support B.C. Children's Hospital and over $109,000 for HYDRECS.

Employee (HYDRECS) Donations

Dollars (in thousands)

	F2003	F2004	F2005	F2006	F2007
COPE, IBEW, M&P	766	550	539	630	582
Fundraisers	7	32	30	50	23
BC Hydro Retirees	88	93	90	90	109
Corporate Donation	100	100	100	100	125
50/50 Draws	53	52	52	53	39
Total:	1,014	827	811	923	880

Through the BC Hydro Employee's Community Services (HYDRECS) Fund, registered charities in the health and social service sector in B.C. benefit from the generosity of BC Hydro and Powerex employees and retirees. Contributions made in fiscal 2003 include employees transferred to the BCTC and ABSU.

People

First Nations

BC Hydro has a wide-reaching social responsibility policy as shown through our community involvements, business actions and decisions. Our main areas of focus are building strong working relationships with First Nations and continuing to resolve grievances. At the same time, we are listening to the communities in which we operate to make business decisions. BC Hydro takes an integrated approach in building mutually beneficial relationships with First Nations and Aboriginal peoples in B.C. As legal, business, political and social realities continue to evolve, the department's goal remains to preserve a foundation of mutual understanding, respect, open and honest communication, and trust with First Nations.

This year, BC Hydro's Board of Directors ratified an Aboriginal Procurement and Contracting Policy. Two pilot programs, in the areas of vegetation management and water license implementation have been selected to test the effectiveness of BC Hydro's new Aboriginal procurement policy. First Nations communities and Aboriginal economic development organizations are being engaged to determine interest and contractor/service provider availability. Engaging BC Hydro's key suppliers will be a key component of the pilot phase.

In fiscal 2007, BC Hydro's Board of Directors approved a 10-year Aboriginal Education and Employment initiative that focuses on recruiting, training and retaining Aboriginal people. Active outreach this year resulted in BC Hydro increasing its understanding of the skill sets in place in B.C. Aboriginal communities. BC Hydro has created a list of interested, qualified candidates and is actively integrating them into the recruitment process.

BC Hydro continues to provide the Community Development Fund to eligible First Nations. The fund is an annual payment to First Nations with transmission and distribution facilities on Reserve lands. The Community Development Fund is in its seventh year. The payments for transmission are based on a "per kilometre" formula while the payments for distribution are based on an "on-reserve population" formula.

In fiscal 2007, BC Hydro and the Province of British Columbia reached an Agreement in Principle with the Tsay Keh Dene Band and the Kwadacha Nation to address impacts faced by these two First Nations as a result of flooding from the Williston Reservoir in the Peace River Valley region. These impacts included the dislocation of community members and lost burial, fishing and hunting grounds.

People

The Tsay Keh Dene Band, the Kwadacha Nation, the Province and BC Hydro are now actively moving to conclude final agreements which will provide time limited payments of approximately $14 million to each of the two First Nations bands. In addition, Tsay Keh Dene will receive ongoing annual payments of approximately $1.9 million and Kwadacha First Nation will receive $1.5 million with future adjustments for inflation. Additional commitments include funding for heritage and health studies and contracting opportunities for both communities. These agreements reflect BC Hydro's commitment to its long term goal to "improve relationships built on mutual respect and that appropriately reflect the interests of First Nations."

In fiscal 2007, BC Hydro entered into an electricity purchase agreement with the Taku Land Corporation which is wholly owned by the Taku River Tlingit First Nation. This two MW hydroelectric project, near the town of Atlin, will replace BC Hydro's Atlin Diesel Generating Station.

BC Hydro is proud to be a sponsor of the 2008 North American Indigenous Games which will be hosted by the Cowichan Tribes on Vancouver Island. The theme for the 2008 Games is "The Journey of a Generation." It is estimated that more than 5,000 athletes will compete in a broad range of sports. In addition, there will be a number of cultural activities. As a sponsor for this event, BC Hydro is providing $250,000 to support the development of a cultural village which will include an Elders Circle, international stage and a Storytelling Circle. Over the next year, BC Hydro will be working closely with Cowichan Tribes to develop this cultural village.

Stakeholders

BC Hydro's long term goal is to become B.C.'s most respected company. By involving stakeholders in our business planning and decision-making processes, we believe we will make better decisions. While BC Hydro has perspectives on the technical, economic, social and environmental fronts, it does not hold a monopoly on those areas, nor does it always know best. This year, BC Hydro began several key initiatives to create opportunities to engage stakeholders and build relationships that will assist us with ensuring that our business is sustainable for generations to come.

A panel of eighteen representatives from First Nations, community groups and customer segments from across B.C. has been providing input and advice to assist BC Hydro in delivering a Conservation Potential Review. This study investigates new and innovative ways for B.C.'s industries, businesses and households to save energy as provincial electricity demand continues to grow. It is expected that this will be the most comprehensive undertaking of its type ever carried out in North America.

Similarly, intervenors and customers helped design the Conservation Research Initiative that examines how adjusting the price of electricity at different times of day (time-of-use rates) influences how residential customers use energy over 12 months. About 2,000 residential customers in Campbell River, Fort St. John, Vancouver, Burnaby, North Vancouver and West Vancouver were recruited to participate in this study. The data and stakeholder input will be used, in conjunction with customer research, to develop a long term rate strategy that will encourage energy conservation in B.C.

Over 13,000 customers were invited to provide input on BC Hydro's proposed changes to the Electric Plus (E-plus) Rate. More than 1,500 affected customers shared their views contributing to the final proposal to phase out the E-plus rate. In addition, over 230 customers and Intervenors participated in workshops, one-on-one meetings and focus groups to guide the options to be presented to the BCUC for the 2007 Rate Design Application. This application seeks to ensure that rates paid by different customer groups reflect the costs of providing service.

People

Certainty for all parties was increased when stakeholders and intervenors worked together with BC Hydro to develop a proposed Negotiated Settlement, accepted by the BCUC, for the 2007 Revenue Requirements Application (RRA). The RRA is intended to help BC Hydro upgrade its existing system and purchase the additional power needed to ensure that we continue to provide reliable power, at low cost, for generations.

Discussions with power suppliers, power retailers and Intervenors, led to the development and successful delivery of BC Hydro's 2006 Call for Power. By ensuring appropriate resourcing, governance and prioritization were in place, this group saw the signing of 38 contracts with independent power producers who will provide additional supply that will contribute to decreasing the electricity gap.

The Revelstoke Unit 5 project provided an opportunity for First Nations, public, and government to comment on an undertaking that could provide a dependable, low-cost option for meeting future electricity requirements. BC Hydro established a core committee of 26 people including regional stakeholders, First Nations and government representatives to review environmental, community impacts of the project and identify any incremental impacts on the Draft Columbia Water Use Plan. Additional input was collected through open houses, public meetings and site tours. The result of this combined effort was a Mitigation and Compensation Plan, revisions to the Draft Columbia Water Use Plan and a Supplemental Report that was submitted to the Environmental Assessment Office during the harmonized federal and provincial environment review of the Revelstoke Unit 5 project.

BC Hydro continues to host Operations Update meetings in several Columbia Basin communities that allow representatives from Community Relations and Engineering, Aboriginal Relations and Generation to meet with elected officials, the public, and First Nations to provide information and hear the concerns of those who have an interest in BC Hydro operations.

This year also saw the formation of an Electricity Conservation and Efficiency Advisory Committee (ECE) that brings together 23 people representing a diverse range of generations, geographical regions, and perspectives including First Nations, customers, independent power producers, trade allies, special interest groups and the provincial and federal government. BC Hydro is looking to leaders from community, government, and industry to help generate new ideas to inspire and support a conservation culture in B.C.

To ensure the continuing transparency and credibility of this report, 23 members of the Electricity Conservation and Efficiency Advisory Committee were asked to provide feedback on the Annual Triple Bottom Line Report. Comments were generally positive and respondents provided BC Hydro with insight as to the varying perspectives of stakeholders.

In particular, John Newcomb, a member of the Electricity Conservation and Efficiency Advisory Committee, and a representative of a number of Victoria and B.C.-based sustainability organizations and committees, stated that,

> *"Over my several years working with BC Hydro people on WUPs (Water Use Plans), IEPs (Integrated Electricity Plans), and now ECE I've grown to trust BC Hydro to have accurate information, and nothing that I've seen or read has ever contradicted that. The quality of information in all reports I've read and analyzed from BC Hydro have been top quality. If BC Hydro can't be accurate, they've always said so and that's fine by me."*

Another committee member, Dan Potts, is involved with the Joint Electricity Steering Committee and wants to see more "focus on financial results, service reliability and plans to maintain low rates for customers." He would also like "an explanation around the need for new transmission to meet our domestic load requirements."

People

Stakeholder feedback continues to assist BC Hydro with identifying viable business solutions. BC Hydro will continue to listen to and seek to understand our stakeholders first, then make business decisions. In keeping with its increased commitment to engaging stakeholders in its business planning and decision making, BC Hydro will continue to look for new opportunities for stakeholder engagement.

Definitions

Stakeholders: Our stakeholders include people, organizations and communities that have an interest in, or are impacted by what we do and how we do it.

Intervenors: Individuals and organizations, including representatives of our customers, who register with the BCUC to actively participate in a regulatory proceeding.

First Nations: First Nations, who have unique constitutional and legal rights, are considered distinct from other stakeholders.

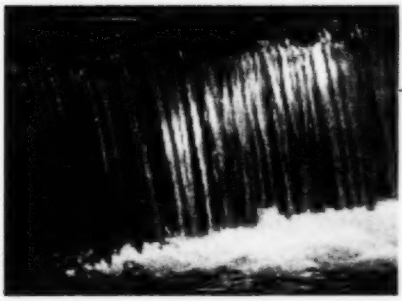
E-plus Rate: Electric Plus, or E-plus, is a program that was offered in the 1980s to BC Hydro customers to buy surplus interruptible electricity at a discount rate as long as they had a permanent back-up heating. Today, BC Hydro no longer has a surplus – in fact, we have been a net importer of electricity into B.C. for several years.

We are acting to make B.C. self-sufficient in electricity within the next decade, and one of our ways of doing that is to begin revising our system of rates so that they are fair to all customer classes, as simple as possible, encourage conservation and reduce electricity use. By phasing out the E-plus rate, we will align with the principles of fairness and simplicity, in line with our own conservation principles and promoting conservation for our customers.

Environment

BC Hydro's environmental long-term goals are an integral part of ensuring that we will have a sustainable future for our business and for the next generation of B.C. residents. BC Hydro is working diligently to operate our business in ways that produce no net environmental impacts. We also mitigate impacts by working with stakeholders and investing in remediation projects such as revegetation or investment in fish stocks.

We want to grow a culture of conservation and efficiency and encourage our customers to make thoughtful energy choices. A reduction in energy use by B.C. residents through programs like Power Smart, and the increased use of energy efficient products and technologies will lead to reduced environmental impacts and can even reduce the need for us to build new facilities.



Environment

BC Hydro's Environmental Responsibility Policy

Consistent with our purpose to provide reliable power at low cost for generations, BC Hydro is committed to producing, acquiring, delivering and consuming electricity in an environmentally, socially and financially responsible manner.

BC Hydro's environmental priority is to achieve the long-term goal of no net incremental environmental impact. We recognize that our energy system causes both positive and negative impacts on the environment and on those with whom we share public resources. Where negative impacts cannot be avoided, we will work to mitigate or offset them, enhance affected habitat, and sustain resources over the long term.

Specifically, BC Hydro will:

- meet environmental requirements defined by legislation, regulation, government directives, and other environmental requirements to which BC Hydro subscribes,
- perform beyond environmental requirements where it makes sound business sense,
- work to reduce historic impacts by habitat development and/or improvement,
- better understand the effects of our business as a means to meet our long-term environmental goal and continually improve our environmental performance,
- develop and foster an electrical energy conservation culture in B.C. that leads customers to make a dramatic and permanent reduction in electricity consumption,
- work cooperatively with stakeholders and First Nations on resource use, management, and conservation to increase public benefits from affected resources, and publicly report on our environmental performance.

The Triple Bottom Line Project

To achieve our purpose and long-term goals, BC Hydro is integrating financial, environmental, and social considerations (the "Triple Bottom Line") in how we plan and manage our business. This is included in our decision-making process across the company and at a Board level. Building on our experience in Water Use Planning and Integrated Electricity Planning, employees from across the company undertook the Triple Bottom Line (TBL) Project to develop a framework and tools to help ensure more consistent and effective TBL decision-making.

In one application of the framework, options for providing electricity to the community of Atlin in northern British Columbia were assessed based on their financial, environmental, and social attributes. When all factors were considered, a small hydro project was selected as the preferred option over continued use of diesel generators.

The framework and tools will assist in making decisions of any type and scale, whether they involve purchasing office supplies, disposing of waste, extending power lines, or deciding how best to achieve energy conservation. While the initial focus was to ensure that environmental and social factors are consistently integrated in decision-making, the TBL framework and tools will enable a better and more consistent approach to decision-making overall.

Environmental Management Systems

BC Hydro continues to use environmental management procedures in an effort to conform to the requirements of the International Standard Organization (ISO) 14001 2004 standard. BC Hydro has had ISO 14001-compliant Environmental Management Systems in place for 10 years. As part of its commitment to continuous improvement, a company-wide review was initiated with the goal of integrating environmental management systems across BC Hydro's business groups. Facilitated by a major reorganization which brought safety and environment functions under a single senior manager, opportunities to integrate safety and environmental systems such as incident management are now being pursued.

Environment

Environmental Incident Reporting

BC Hydro's environmental incidents are internally reported, communicated and assessed through the Environmental Incident Reporting (EIR) system. We report all incidents in the EIR system to provide managers with timely and accurate information to manage incidents, identify trends, and track actions. This helps us to correct the underlying problem to prevent future incidents. All incidents are evaluated to ensure the environmental response is appropriate and complete, and that the lessons learned are documented.

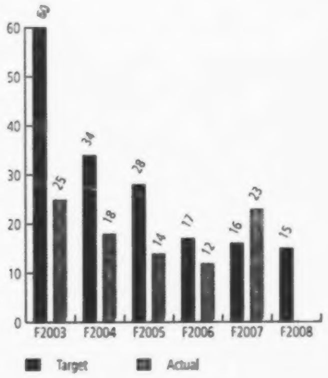
In fiscal 2007 the total number of BC Hydro incidents recorded in the EIR system was 213, slightly more than double the 106 incidents recorded in fiscal 2006. The reasons for this include an increased focus on reporting, a number of severe weather events, the implementation of water license requirements (i.e. water levels and flows), and the new requirement to include bird fatalities. Of the 213 incidents reported in fiscal 2007, 71 exceeded thresholds requiring reporting to an external regulatory agency, one is still under investigation to determine ownership and reportability.

The measure we use to monitor progress on environmental incidents is the Environmental Regulatory Compliance (ERC) measure. Environmental Regulatory Compliance incidents are a subset of environmental incidents reported in the EIR system which require reporting to an external regulatory agency and are considered preventable. Of the 71 reportable incidents recorded, 23 qualified for the ERC which is significantly more than our target of 16. The number of reportable, preventable incidents (ERCs) has increased significantly this year, primarily as a result of human error and the introduction of additional water licence requirements. We will review our strategies to meet the target (15) for fiscal 2008 given current trends as well as assess controls in place based on the introduction of water licensing requirements and improve contractor training and competence in Field Operations.

Spills of oil to the environment and fish stranding are significant environmental risks with any hydroelectric generation system. For example, an incident in February 2007 at Ruskin Dam involved fish stranding during a planned reservoir drawdown to accommodate repairs to leaking penstocks; a monitoring report is being compiled that will provide recommendations for future drawdowns to minimize stranding. In December 2006, the failure of a Magnatrol head (a sensory device that tracks the level of oil) at the Buntzen Generating Station caused the release of approximately 2,000 litres of oil. All of the oil however, was contained in the drainage sump and none was released into the environment. This near miss incident has lead to the planned replacement of the equipment, as well as a new monitoring procedure that should prevent such releases in the future.

Environmental Regulatory Compliance

Number of Incidents



The Environmental Regulatory Incidents measure is defined as the number of externally reportable, preventable environmental incidents.

Results for the fiscal 2007 Environmental Regulatory Compliance measure are below target as a result of 23 incidents compared to the target of 16 incidents. One of these incidents was considered severe and was the result of vandalism at the Prince George Substation during which an estimated 10,000 litres of oil was spilled. Remediation costs are estimated to be over $100,000. A total of 19 incidents are the result of human error; six of which were related to Water Licence violations. The four remaining incidents were caused by equipment failure.

Targets are developed and results are based on past performance.

Environment

COMPENSATION AND RESTORATION PROGRAMS

BC Hydro has established our compensation programs with the province to mitigate historic impacts on fish and wildlife resulting from the construction of our dams. The programs involve stakeholder and First Nations engagement, research projects and other compensation initiatives. Examples of these projects are listed below.

Columbia Basin Fish and Wildlife Compensation Program

The Columbia Basin Fish and Wildlife Compensation Program works on behalf of its program partners, BC Hydro, the Ministry of Environment and Fisheries and Oceans Canada to conserve and enhance fish and wildlife populations impacted by the construction of BC Hydro dams.

In fiscal 2007, BC Hydro provided just over $4 million that supported nine fish and 23 wildlife projects. These included the operation of the manmade kokanee spawning channels at Hill Creek and Meadow Creek that, together, had the best egg-to-fry survival rates in recent years. The Fertilization Program of Kootenay Lake and Arrow Lakes Reservoir recorded increases in both zooplankton and kokanee production and continues to be one of the largest successful lake restoration projects in the world.

Other achievements this year include acquisition of nearly 2,500 hectares of critical wildlife habitat and the relocation of 19 Rocky Mountain Bighorn sheep (vulnerable in the province) from the Golden area to the mountains east of Canal Flats. This work is to support herds on the decline and follows the successful transplant of 25 sheep during fiscal 2005, again in the East Kootenay.

The Columbia Basin Fish and Wildlife Compensation Program received national recognition this year for its efforts to conserve the endangered Northern Leopard frog, winning the Silver Salamander Award from the Canadian Amphibian and Reptile Conservation Network. Since 1995, BC Hydro's contributions to the program have totalled more than $46 million.

Peace Williston Fish and Wildlife Compensation Program

The Peace Williston Fish and Wildlife Compensation Program operates within the watersheds of the Williston and Dinosaur Reservoirs in northern B.C. During fiscal 2007, the program spent over $1.3 million on fish and wildlife research and enhancement projects: $700,500 was directed towards 21 fish projects, while $620,000 funded 11 wildlife projects. Fish projects included improving fish rearing habitat in the Dinosaur Reservoir by adding woody debris structures, and conducting counts of spawning kokanee to monitor the increase in numbers and distribution of the stocked species. Wildlife projects included monitoring the frequency, timing and duration of visits by mountain goats to low elevation mineral licks, and measuring the response of cavity-nesting birds to the retention of wildlife tree patches and three metre-high stumps within clearcuts. Since the program's inception in 1988, BC Hydro has provided project funding for the Peace Williston Fish and Wildlife Compensation Program each year for a total expenditure of $28.5 million to date.

Bridge Coastal Restoration Program

Established in 1999 in partnership with the Government of Canada (Fisheries and Oceans Canada) and the Government of B.C. (Ministry of Environment), the Bridge Coastal Fish and Wildlife Restoration Program (BCRP) invested in 38 projects totalling $3 million in fiscal 2007. Project highlights include: Western Screech and Flammulated Owl research from previous and current years, continued spawning channel creation and spawning gravel placement projects in the Puntledge River and Campbell River, and continued restoration of estuary habitat in the Squamish River.

The Bridge Coastal Restoration Program updated its Watershed Strategic Plan and Project Evaluation program in collaboration with BC Hydro, the Ministry of Environment and Fisheries and Oceans Canada. These initiatives were implemented to improve investment alignment with most current BC Hydro and Agency objectives, improve BCRP's ability to assess how BC Hydro's ecological footprint is being addressed, and internalize project evaluation within the Program Office. Since 1999, BCRP has invested approximately $10.5 million in fish and wildlife resources.

SPECIES AT RISK

Upper Columbia White Sturgeon Recovery Initiative

Since 2000, BC Hydro has been an active partner in the Upper Columbia River White Sturgeon Recovery Initiative to help restore the endangered local white sturgeon population. The Columbia River White Sturgeon population was formally listed as Endangered under the *Canadian Species at Risk Act* in August 2006. The listing provides formal protection of the population and its habitat, and ensures measures will be taken to provide for its recovery.

BC Hydro has been involved with research, monitoring and conservation culture for the Columbia River sturgeon and has collected research data over the past five years as part of the Columbia White Sturgeon Recovery Plan. The process will be completed in July 2007 and will provide information for the updating of the recovery plan and the undertaking of a feasibility plan to develop management responses to address recruitment failure in the Columbia downstream of the Hugh L. Keenleyside Dam.

Juvenile Upper Columbia River White Sturgeon Release (UCWSR)

In addition to directly supporting the recovery effort, BC Hydro has been a long-standing supporter of community education and raising awareness about the plight of the white sturgeon. In fiscal 2007 BC Hydro and other UCWSR partners invited the public and elementary school children, together with representatives of all levels of government and First Nations, to take part in the release of 11,000 juvenile white sturgeon into the Columbia River at Trail and Castlegar. Since 2000, approximately 69,000 juvenile sturgeon have been released into the Columbia River. Approximately 30 per cent survive the first year and, of those, 85 per cent survive the second year. The survival rate rises to about 90 per cent for older juveniles.

AIR MANAGEMENT

By managing our local air emissions through emission reduction equipment at each of our facilities, BC Hydro meets or exceeds permit requirements for facilities that require an air emissions permit. Although there are currently no regulations for emissions of greenhouse gases in Canada or British Columbia, BC Hydro tracks and reports our corporate-wide greenhouse gas (GHG) emissions. The 2007 BC Energy Plan indicates the government's intent to have all electricity generation in B.C. achieve zero net greenhouse gas emissions by 2016. BC Hydro will be working with the government to determine how that policy will be implemented.

Consistent with federal expectations, BC Hydro's air and GHG emissions are tracked and reported on a calendar year basis. In addition, for the 2006 calendar year, data on BC Hydro's emissions are compiled in accordance with the Greenhouse Gas Protocol created by the World Business Council for Sustainable Development and the World Resources Institute. The following table provides a summary of BC Hydro-associated direct and indirect GHG emissions from electricity generated in B.C. in the 2006 calendar year. Total GHG emissions are up from 2005 as a result of higher operation of thermal generating facilities due to lower water inflows.

Environment

Greenhouse Gas (GHG) Emissions

Calendar Year	Base Year	2002	2003	2004	2005	2006
BC Hydro Direct GHG Emissions						
BC Hydro Facilities	1,249	296	259	448	283	577
Fugitive Sulphur Hexafluoride (SF_6)	116	64	77	70	55	51
Buildings	11	7	14	8	7	8
Vehicles	15	15	18	16	15	17
Subtotal direct GHG Emissions	1,391	382	368	542	360	653
Indirect GHG Emissions						
B.C.-based Independent Power Producers	14	818	809	943	863	734
Customer-Based Generation and Load Displacement	N/A	N/A	N/A	27	27	28
Subtotal indirect GHG Emissions	14	818	809	970	890	762
Offsets						
Island Cogeneration Project	0	(250)	(260)	(327)	(296)	(244)
Total GHG Emissions	1,404	950	917	1,185	954	1,171

Notes:
SF_6 information for 2004 and 2005 was updated to reflect revised information for those years.

Information for the McMahon cogeneration plant was incorrectly reported for 2004 as the fuel combustion related to steam generation was not removed before calculation and reporting of greenhouse gas emissions related to electricity generation.

Total emissions for 2004 and 2005 have been revised to reflect the above changes.

Base year is the average for 1989-1993. GHG impacts due to net import/export are not included.

Management of Contaminated Sites

In fiscal 2007, BC Hydro continued to further define corporate-wide accountabilities for contaminated sites management through the property life cycle, from acquisition to disposal, and review dormant and surplus properties to determine if there are significant potential contamination issues that BC Hydro may not be aware of. The establishment of the Safety, Health and Environment department has brought a newly defined governance function to environmental policy within the company. The various business groups remain responsible for their operations, which includes contaminated sites funding and management. The review of the dormant and surplus sites is being finalized, but to date no significant concerns have been identified.

Environment

Rock Bay Remediation Project

The Rock Bay Remediation project is a joint undertaking of BC Hydro and Transport Canada, and has received strong support from the City of Victoria. The project began in fiscal 2005. The first stage of the project, which focused on coal-tar contaminated soil on the eastern portion of the site, was completed in August 2005. The work involved excavation and off-site soil treatment techniques including the use of naturally-occurring bacteria to break down the contaminants at a treatment site in Delta, and destruction of contaminants at a thermal treatment plant in Princeton.

The second stage of the project involved the excavation and treatment of coal tar contaminated soil on the western portion of the property and was completed in October 2006. BC Hydro also addressed some residual PCB-contaminated soil in this stage. Low-level PCB-contaminated soil was destroyed at the thermal treatment plant in Princeton and high level PCB-contaminated soil was shipped to a thermal treatment plant in Quebec, as the Princeton plant is not permitted to treat this soil. Some of the soil remains in a secure, permitted storage facility on site and will be treated and disposed of in the near future.

Based on the significant scope, cost and schedule changes to date, a review of the Rock Bay project was commissioned by BC Hydro to evaluate the progress to date and determine the best approach to ensure a successful completion. Completed at the end of 2006, the Project Review evaluated options for off-site contamination, property disposal and redevelopment. BC Hydro is sharing the results of the review with Transport Canada. A preferred course of action for the next stage and off-site contamination is currently under development.

Recycling and Waste Management

In fiscal 2007, 4,527 tonnes of non-hazardous materials (including scrap metals, wood and paper, etc.) were diverted from landfills. This is an increase of five per cent from the previous year. The result is a landfill diversion rate of 77 per cent, equaling the fiscal 2006 rate of 77 per cent. By 2025, BC Hydro's long term goal is to divert 95 per cent of non-hazardous waste from landfills.

Managing Polychlorinated Biphenyls (PCBs)

To maintain high levels of service, BC Hydro continuously upgrades its distribution transformers as load increases or as units fail. This process continually reduces the number of older units that could contain PCB-contaminated oil. This year, BC Hydro completed two and a half years of a three year testing program in which ground-level transformers containing PCBs are identified. Since the inception of the program, BC Hydro has confirmed PCB levels for approximately 84 per cent of all ground-level transformers and identified 864 units which exceed the threshold. 726 units with higher levels of PCBs or located in sensitive areas will be replaced by the end of 2009, whereas 63 units with lower levels will be replaced by 2014. Additional units requiring replacement may be identified by the end of the testing program.

Fleet Vehicle Emissions Reductions

Fleet Services is actively investing in hybrid vehicles in order to increase sustainability through reduced emissions in the vehicle fleet. Currently there are 19 Toyota Prius passenger cars, 23 Ford Escape Hybrid SUVs and six Smart cars in service with more on order. In addition, eight heavy vehicles are currently operating with biodiesel. The environmental benefit of this initiative represents a trade off against the additional incremental cost of these units, and is a key part of reducing BC Hydro's overall environmental impact.

Environment

WATER MANAGEMENT

Water Use Planning

BC Hydro began our Water Use Planning process to engage the participation of public stakeholders, fisheries agencies, First Nations, and the provincial government in reviewing the operation of our facilities and making recommendations for optimizing economic, social, and environmental benefits. The Water Use Plan contains three components: operational changes, monitoring studies and requirements around feasibility studies and/or physical works. To date, BC Hydro has developed 23 Water Use Plans for BC Hydro's hydroelectric facilities, and 17 of these have been approved by the Comptroller of Water Rights.

By the end of fiscal 2007, BC Hydro had received the approval to implement 15 of the 17 Water Use Plans approved. Monitoring studies and physical works have been implemented for most of the watersheds on Vancouver Island, the Lower Mainland and in the Columbia basin. Most of the work is being done by external consultants and contractors including First Nations.

To provide some more context around Water Use Plans, in some cases, operational changes resulted in increased generation while in other cases, the changes resulted in reduced operating flexibility and generation in exchange for enhanced fish spawning and rearing habitat, improved reservoir access for recreational use, heritage sites protection, and improved riparian habitat.

Monitoring studies are ordered to assess whether the expected results of the operating changes are being realized. This information will assist in making better future decisions upon review of each Water Use Plan. Other studies are being conducted to collect information that was not available during the Water Use Planning process but is also necessary to make future recommendations when the operations are reviewed.

Physical works were often recommended when the Water Use Planning participants determined that an equivalent benefit could be achieved through physical works at a lower cost than making an operating change. For example, rather than reducing the operating range of a reservoir to provide improved access for boaters, new or improved boat ramps could be constructed. The monitoring studies and physical works are implemented following instructions from the Comptroller of Water Rights.

Environment

Resource Smart

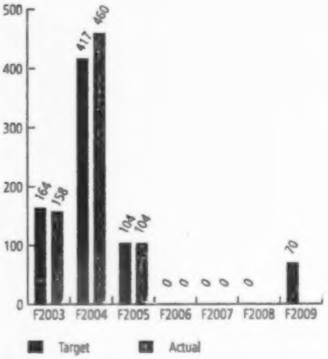
BC Hydro's Resource Smart was introduced in the late 1980s. It provides additional electricity to the BC Hydro system by modifying, updating and retrofitting our existing generation facilities. This means increased efficiency and electricity production with generally low or no incremental environmental impact. Since its inception, this program has added almost 1,300 gigawatt hours (GWh) a year, enough to power 130,000 homes.

This year, we began planning to upgrade our heritage assets at the Revelstoke Generating Station on the Columbia River. This project would yield approximately 500 MW of additional generating capacity. A key component of closing the growing energy gap is through Resource Smart projects such as installing the fifth generator at Revelstoke, and redeveloping and expanding some of our existing sites such as Aberfeldie, John Hart and Ruskin. Delivering on these projects is critical to ensuring that future generations of British Columbians can enjoy the same benefits of low-cost, reliable power that we do today.

These potential large-scale resource projects represent complex decisions and require long lead-times to plan and develop. Any possible projects pursued by us would require provincial and federal regulatory approvals and would involve a significant level of First Nations, community and stakeholder engagement as well as technical study and environmental review.

Resource Smart Energy Gains Delivered

Gigawatt Hours (GWh)



Resource Smart Energy Gains Delivered are the projected, long-term average incremental energy gains for existing generation facilities that are put into service during the year.

Targets are based on the identification, study and implementation of projects that provide economic energy gains at existing BC Hydro facilities, and typically have little incremental environmental impact. These targets support the 2007 BC Energy Plan objectives of zero net greenhouse gas emissions for all new electricity generation projects and to ensure renewable and clean electricity generation continues to account for at least 90 per cent of total generation. While no new projects are targeted for next year, 70 GWh of new energy is planned in fiscal 2009 at BC Hydro's Aberfeldie dam.

Environment

OTHER ENERGY-RELATED INITIATIVES

Green Power Certificates

Helping our customers to use energy in a sustainable manner is important to BC Hydro. One of the ways we do this is through the Green Power Certificate (GPC) program, which started in Fall 2002. Each certificate represents the green attributes and emissions reductions from one megawatt hour of Eco-Logo Certified green power generation.

Green Power Certificates

Number

	F2004	F2005	F2006	F2007
Certificates Sold	8,651	28,535	44,519	67,084

Each GPC represents the environmental attributes of generating one megawatt-hour of EcoLogo™ Certified green power. GPCs are offered to BC Hydro's institutional, commercial and industrial customers.

This year, 80 organizations participated in the program and purchased certificates representing green power production that would have created over 24,000 tonnes of greenhouse gas emissions if generated by thermal sources. These results, due to customer demand, represent a 50 per cent increase over the previous fiscal year. Companies like CIBC, TransLink and Wal-Mart have made significant commitments toward GPC purchases. Demand for GPCs is expected to grow next year with more organizations recognizing the benefits that GPCs offer.

Environment

Clean Energy Results

BC Hydro has a 50 per cent BC Clean Energy Target to be achieved over a 10-year period, which began in fiscal 2003 and will end in fiscal 2013. Since the target was established in 2002, all new energy acquired has been BC Clean. The 2002 Energy Plan defines Clean Energy as alternative energy technologies that result in a net environmental improvement relative to existing energy production. Examples include hydro, wind, solar, photovoltaic, geothermal, tidal, wave and biomass, as well as some cogeneration from heat and power, energy from landfill gas and municipal solid waste that meet the B.C. Clean Electricity guidelines and fuel cells and efficiency improvements at existing facilities. For BC Hydro, this means projects that are built in B.C. and represent supply commitments made after November 2002, or energy efficiency improvements at existing facilities that were committed to after that date.

Clean Energy Delivered

Percentage

	F2004	F2005	F2006	F2007	F2008
Target	50	50	50	19	TBD*
Actual	52	36	21	17	

**TBD - To be determined*

The B.C. Government's 2002 Energy Plan defines BC Clean Energy as alternative energy technologies that result in a net environmental improvement relative to existing energy production. Examples include hydro, wind, solar, photovoltaic, geothermal, tidal, wave and biomass, as well as some cogeneration from heat and power, energy from landfill gas and municipal solid waste that meet the B.C. Clean Electricity guidelines and fuel cells and efficiency improvements at existing facilities. For BC Hydro this means projects that are built in B.C. and represent supply commitments made after November 2002, or energy efficiency improvements at existing facilities that were committed to after that date. The Clean Energy target of 50 per cent of incremental load (which is essentially new supply requirements) is to be achieved over a 10-year period, beginning in fiscal 2003 and ending in fiscal 2013.

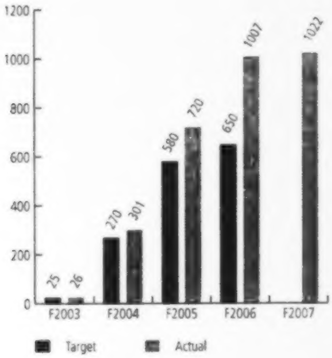
Fiscal 2007 performance results are below target as we continue to experience Commercial Operation Date (COD) delays for four projects (Berkey Creek, Cypress Creek, Hunter Creek and Pierce Creek.) Since fiscal 2003 there has been a significant increase in our demand due to economic activity. Overall load has also grown at a higher rate than clean energy coming on-line to meet this growth. In addition, there has been attrition in the volume of BC Clean Energy delivered relative to that contracted. Had the attrition rate been lower for IPPs coming on-line, BC Hydro would have imported less energy for domestic needs and our actual percentage would have been closer to target.

NOTE: The release of the 2007 BC Energy Plan Update on February 28, 2007, changed the 50 per cent clean electricity target to 90 per cent and changed the way it has been historically characterized. The 90 per cent clean target is referring to all existing BC Hydro generation rather than simply incremental generation and that the target is no longer tied to the load growth at any given year. This is a fundamental change from the way the previous 50 per cent clean electricity target was characterized and reported. Clarification of the new 90 per cent target and how it is to be characterized will be obtained from government and reported in BC Hydro's next Service Plan in 2008.

Environment

Green Energy Results

GWh/year



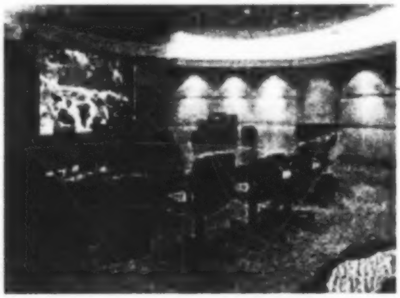
Green Gigwatt Hours (GWh) are the cumulative online gigawatt hours contracted from green sources that meet purchase price limits. This includes projects from the 2000 Expression of Interest, 2001 Green Call, one project from the 2002 Customer-Based Generation (CBG) Call and the 2003 Green Power Generation Call.

The Green GWh definition and targets were established over four years ago, and was not updated when BC Hydro acquired additional green energy over planned acquisition targets in the two Green Calls. In addition, CBG projects were reported under a separate measure. Purchases for fiscal 2007 are higher than fiscal 2006 as one additional project came online in fiscal 2007.

Overview

Government has established guiding principles on corporate governance for its Crown agencies that sets out roles, responsibilities and accountabilities. A Shareholder's Letter of Expectations describes the relationship between Government (as Shareholder) and BC Hydro on issues of mandate, performance expectations, public policy and strategic priorities. The Letter is reviewed annually, updated as required and signed by the Chair on behalf of the Board of Directors of BC Hydro and by the Minister of Energy, Mines and Petroleum Resources as Government's representative.

BC Hydro's governance framework was adopted in 1998 and is regularly reviewed to ensure its various components meet the Corporation's ongoing business needs from a governance perspective while being consistent with Government's guiding principles on Crown agency corporate governance.



Overview

BOARD OPERATIONS

Board and Committee meetings are scheduled together on a quarterly basis. Time is also allotted each quarter for continuing education and these scheduled tutorials provide Directors with an opportunity to discuss strategy, a complex business issue or a specific aspect of the Corporation's operations. Through its standing Committees, the Board is kept informed of business issues during the year, with continued emphasis on operational and financial risk.

As with any business there are times when special Board meetings are required outside the regular meeting schedule and several unscheduled meetings were required last year to address a number of time-sensitive business issues.

STRATEGY FORMULATION

Over the past three years, the Board has approved BC Hydro's purpose statement and long-term goals. Last year, the Corporation focused on strategy implementation and the five priorities set out in the fiscal 2007 Service Plan relating to safety, financial performance, customer satisfaction, reliability (customer and supply) and people.

At its annual Board Retreat in Prince George during September 2006, the Board spent time discussing customer reliability and gaining a fuller appreciation for the day-to-day challenges encountered by employees. This discussion served as a backdrop for what the future could bring in terms of technological solutions in support of customer reliability.

While in Prince George, the Board and Management team took the opportunity to meet informally with local leaders, stakeholders, customers, First Nations and employees at a community reception held at the University of Northern British Columbia.

ENVIRONMENTAL OVERSIGHT

The Board of Directors expects assurance that environmental compliance processes are in place and that any deviation is identified in a timely way and reported to the Audit and Risk Management Committee, the Board Committee assigned with this responsibility.

An environmental session is built into the Board's annual meeting calendar. Last year's session took place at the Surrey Campus with presentations from management on environmental issues facing BC Hydro followed by an interactive session that explored challenges and opportunities for BC Hydro's Environmental long term goal of "no net incremental environmental impact."

The annual session also included presentations from local elementary and high school students that highlighted the environmental responsibility of organizations. Tours of the Materials Management Business Unit and the Hydrogen Fuelling Station at Powertech Labs Inc. completed the day's activities.

BOARD ORIENTATION AND ONGOING EDUCATION

In addition to quarterly tutorials and other business-specific educational sessions scheduled during the year, a formalized orientation program for new Directors has been established as well as policy for ongoing Director professional development.

Overview

BOARD RENEWAL

Last year, the Board's Corporate Governance Committee initiated a director search for candidates in conjunction with the Board Resourcing Office's candidate selection and appointment process. As a result of this process two nominee Directors were identified and have been recommended to Government for appointment.

BC Hydro's Board members have been appointed by Government with no fixed term. As a result, a rotation plan has been established in support of a planned Board renewal process. The rotation plan establishes a maximum tenure of nine years, comprised of three 3-year terms, providing a means through mutual determination between Director and Board Chair as to whether an appointee steps down at one of the established milestones or continues until the maximum term expires.

GOVERNANCE AND DISCLOSURE GUIDELINES FOR BRITISH COLUMBIA PUBLIC SECTOR BOARDS

Best Practice Guidelines on Governance and Disclosure were issued by the provincial government in 2005 and organizations were requested to meet the disclosure standards by April 2006. BC Hydro is fully compliant with the guidelines and the Board's annual response to the 12 disclosure requirements is posted on BC Hydro's website www.bchydro.com/policies/openness/openness26867.html and updated annually.

Terms of reference for the Board and its Committees, the Chair, the Chief Executive Officer and the Corporate Secretary together with related processes have been disclosed as well as conduct expectations, director biographies, the number of Board and Committee meetings held during the year and Director attendance records.

CONTINUOUS IMPROVEMENT

Subscribing to the principle of continuous improvement, Board performance is evaluated annually to ensure that the Board of Directors performs its due diligence and policy oversight role in the most effective manner.

With the benefit of ongoing examination, awareness of best practices and benchmarking of other organizations, Directors are assured that BC Hydro's governance framework is appropriate. The Board also understands that while process and structure drive good governance, success is only assured when the appropriate behaviours, attitudes and leadership are demonstrated at all levels of the organization.

ACCOUNTABILITY FOR SUSTAINABILITY

The Chief Safety, Health and Environment Officer is accountable for BC Hydro's external sustainability focus as well as for enabling the implementation of sustainability within BC Hydro. Each Business Group (BG) is responsible for the direct implementation of sustainability through the BG's sustainability groups. Reporting on environmental risk is met through the Quarterly Risk Report that is provided to the Risk Management Committee and the Audit and Risk Management Committee of the Board.

The Sustainability Leadership Team, a cross-BG management team chaired by the Manager of Environment and Sustainability, meets to identify areas and opportunities for implementing and integrating sustainability within BC Hydro. External inputs into BC Hydro's business decisions are obtained through a variety of First Nations and stakeholder engagement processes and their input is considered in our triple bottom line decision-making processes.

CORPORATE AUDIT PROGRAM

BC Hydro's audit framework incorporates Risk Based and Cyclical Audits, and Control Assessments to provide a comprehensive program to support stakeholders' assurance needs. These programs are updated on a regular basis with information received from benchmarking, risk assessments and other reporting and monitoring activities. Each year, the members of BC Hydro's Audit and Risk Management Committee of the Board reviews the Internal Audit Plan and Audit Services Charter. It also reviews audit reports issued by Internal Audit, management's response and subsequent follow-up of identified weaknesses.

The Committee Chair also meets privately with the Director, Internal Audit in advance of the Committee meetings to discuss all items to be presented.

Together this provides support for an effective control environment at BC Hydro across the three bottom lines.

The following table depicts the audits conducted in fiscal 2007.

Risk (R) / Cyclical (C)	Audit Reports Issued Fiscal 2007	BUSINESS GROUPS	POWEREX	PERFORMANCE MEASURE	ENVIRONMENTAL	IT	3rd PARTY ABSU & BCTC
C	Amended Master Service Agreement Service Level Agreement Metrics Audit			•			•
C	Customer Care Billing	•					•
R/C	Customer Care & Conservation Integrated Audit - Load Forecasting	•					
R/C	Distribution Integrated Audit - IPP Contract Management Process; Customer Satisfaction Index Performance Measures	•		•			
R/C	Engineering Integrated Audit - BCTC Service Agreement, Service Delivery; Schedule Milestones Performance Measures	•		•			•
R/C	Field Operations Integrated Audit - BCTC Service Agreement; Distribution Line Emergency Call Response Time Performance Measures	•		•			•
R	Powerex Credit Risk Management		•				
R	Powerex Market Risk Management		•				
C	Powerex Trade Processing Controls		•				
R	Water Use Plan Implementation	•			•		
	Audit Reports Issued = 10	**6**	**3**	**4**	**1**	**0**	**4**
	Follow-up Reports Issued = 15	**10**	**3**	**3**	**4**	**2**	**2**

Directors, Officers and Executive BC Hydro

BOARD OF DIRECTORS

Larry Bell
Chair

Stephen Bellringer

Wanda Costuros

Elmer Derrick

Brenda Eaton

Nancy Olewiler

Walter Saponja

Jack Weisgerber

OFFICERS AND SENIOR MANAGEMENT

Larry Bell
Chair

Bob Elton
President and CEO

Teresa Conway
President and CEO, Powerex

Alister Cowan
Executive Vice-President and CFO

Dawn Farrell
Executive Vice-President, Engineering, Aboriginal Relations and Generation

Gary Rodford
Senior Vice-President, Field Operations

Bev Van Ruyven
Executive Vice-President, Customer Care and Conservation

Ray Stewart
Chief Safety, Health and Environment Officer

Barbara Meens Thistle
Chief Human Resources Officer

Cheryl Yaremko
Chief Accounting Officer

Susan Yurkovich
Senior Vice-President, Corporate Affairs

Myra Watson
Corporate Secretary

Committees of the Board of Directors

EXECUTIVE

Larry Bell
Chair

Wanda Costuros

Jack Weisgerber

This Committee meets only in special circumstances. It has the full powers of the Board to act in situations when, for timing reasons, a Board meeting cannot be scheduled.

AUDIT AND RISK MANAGEMENT

Wanda Costuros
Chair

Brenda Eaton

Nancy Olewiler

Walter Saponja

This Committee assists the Board in fulfilling its obligations and oversight responsibilities relating to the audit process, financial reporting, the system of internal controls, governance of the Corporation's pension plans, and various facets of risk management.

CORPORATE GOVERNANCE

Brenda Eaton
Chair

Stephen Bellringer

Wanda Costuros

Elmer Derrick

This Committee assists the Board by ensuring that BC Hydro develops and implements an effective approach to corporate governance. This enables the business and affairs of the corporation to be carried out, directed and managed with the objective of enhancing shareholder value.

HUMAN RESOURCES

Nancy Olewiler
Chair

Stephen Bellringer

Elmer Derrick

Jack Weisgerber

This Committee assists the Board in fulfilling its obligations relating to senior management, human resource, compensation and safety issues.

Committees of the Board of Directors

ADVISORY COMMITTEE – PEACE RIVER / WILLISTON RESERVOIR

Jack Weisgerber
Chair

Lori Lynn Ackerman
Fort St. John

Don Bourassa
Dawson Creek

Rick Hopkins
Fort St. John

Gwen Johansson
Hudson's Hope

Bob McNabb
Chetwynd

Kevin Neary
Mackenzie

George Stedeford
Mackenzie

Leigh Summer
Hudson's Hope

Ron Terlesky
Mackenzie

Donny Van Somer
Kwadacha

The Board appoints Advisory Committees from time to time. This Advisory Committee provides advice and facilitates two-way communications between the Peace/Williston community and BC Hydro. The Chair is a Board member and Committee membership is composed of local community leaders, providing equitable representation from geographical and special interest groups within the region.

FOOTNOTES

Committees of the Board of Directors

Committees of the Board of Directors of BC Hydro are composed entirely of Directors who are independent of management. The Peace River/Williston Reservoir Advisory Committee is composed of local community members and chaired by an independent member of the BC Hydro Board. The Board of Directors of BC Hydro's wholly owned subsidiary, Powerex Corp., has also appointed an Audit and Risk Management Committee composed of independent Directors.

Boards and Committee Meetings held from April 1, 2006 to March 31, 2007

BC Hydro
The number of Board and Committee meetings in fiscal 2007 are set out in BC Hydro's corporate governance disclosure at: http://www.bchydro.com/policies/openness/openness26867.html.

Subsidiaries
Powerex Corp.
Quarterly and Special Board Meetings – 9
Audit and Risk Management Committee – 5
Strategy Session – 1

Powertech Labs Inc.
Regular Board Meetings – 3

Powerex Corp

BOARD OF DIRECTORS

Wanda Costuros
Chair (appointed Chair August 3, 2006)

Larry Bell
(resigned as Chair and Member August 3, 2006)

Elmer Derrick

Brenda Eaton

Bob Elton

Bob Fairweather

Nancy Olewiler

Peter Powell

Walter Saponja

OFFICERS

Wanda Costuros
Chair (appointed Chair August 3, 2006)

Larry Bell
(resigned as Chair and Member August 3, 2006)

Teresa Conway
Chief Executive Officer

David Wong
Vice-President, Finance and Chief Financial Officer

Myra Watson
Secretary

Diana Seehagen
Assistant Secretary
(appointed February 28, 2007)

AUDIT & RISK MANAGEMENT

Peter Powell
Chair

Wanda Costuros

Elmer Derrick

Brenda Eaton

Bob Fairweather

Nancy Olewiler

Walter Saponja

Powertech Labs

BOARD OF DIRECTORS

Dawn Farrell
Chair (appointed Member February 26, 2007; apponted Chair March 15, 2007)

Bill Best

Ray Stewart
(appointed February 26, 2007)

Bev Van Ruyven
(resigned as Chair March 15, 2007 but remains a Member)

Bruce Ripley
(resigned February 23, 2007)

Bruce Sampson
(resigned February 23, 2007)

OFFICERS

Dawn Farrell
Chair (appointed Member February 26, 2007; appointed Chair March 15, 2007)

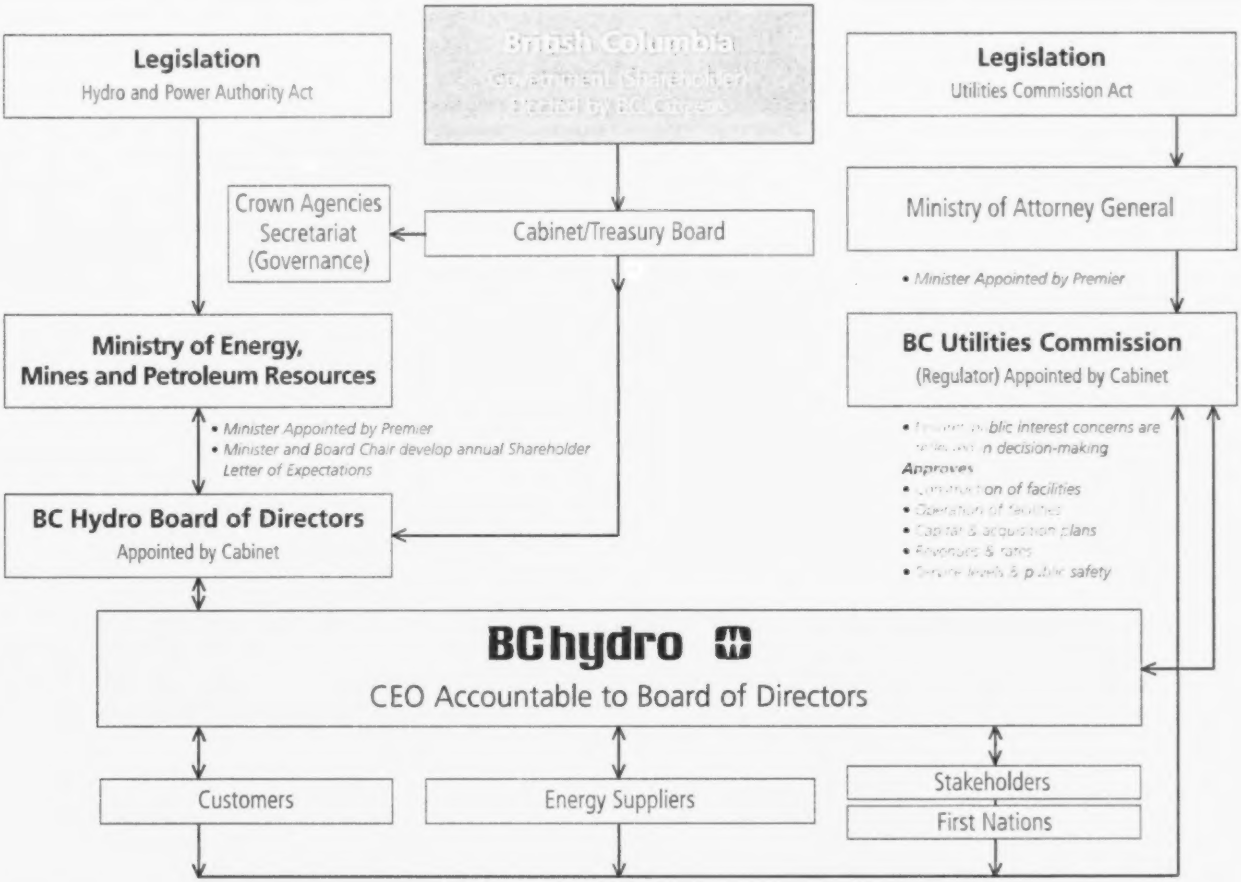
Bev Van Ruyven
(resigned as Chair March 15, 2007)

Richard Marchant
Chief Operating Officer

Myra Watson
Secretary

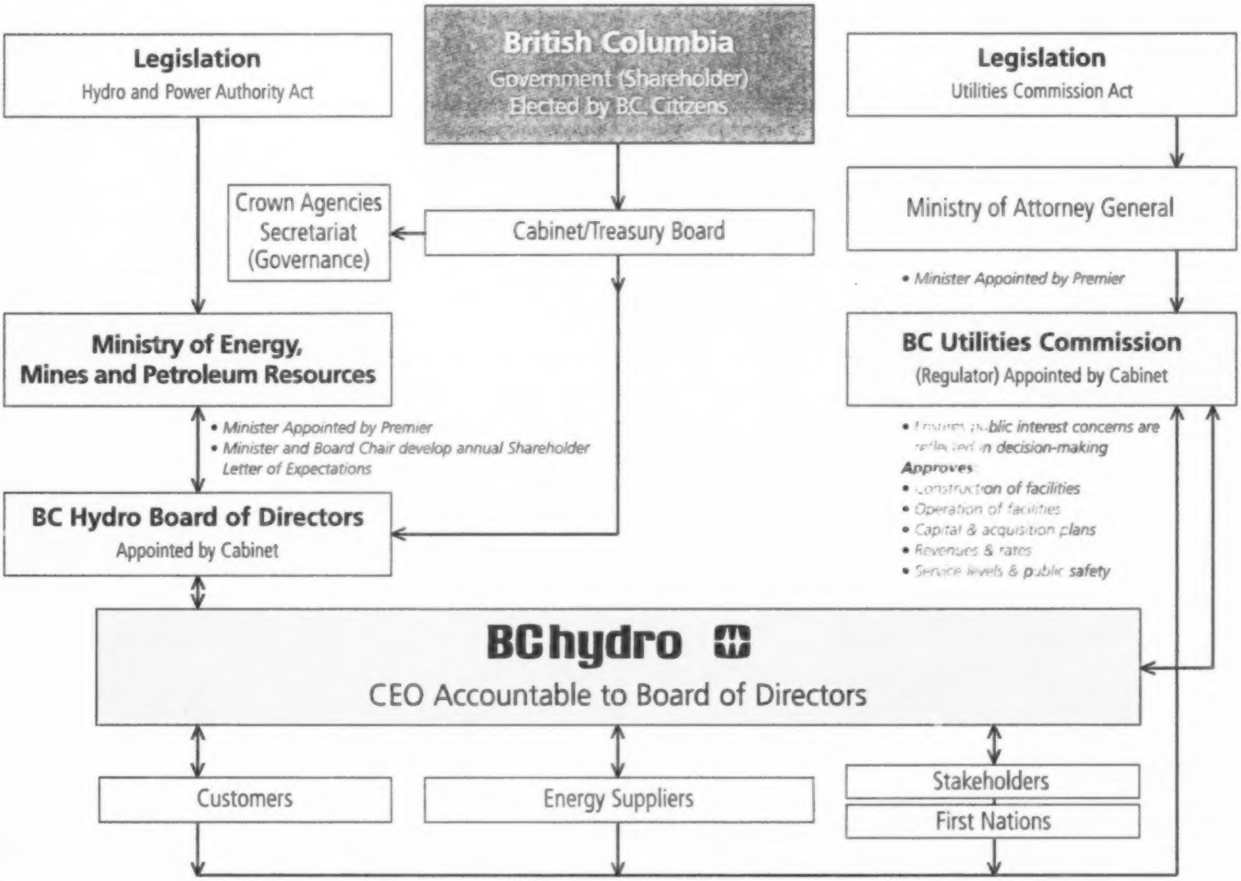
Diana Seehagen
Assistant Secretary (appointed March 15, 2007)

BC Hydro Shareholder-Regulatory Relationships Framework


British Columbia
Government Shareholder
Elected by BC Citizens
Legislation
Hydro and Power Authority Act
Legislation
Utilities Commission Act
Crown Agencies Secretariat (Governance)
Cabinet/Treasury Board
Ministry of Attorney General
• Minister Appointed by Premier
Ministry of Energy, Mines and Petroleum Resources
• Minister Appointed by Premier
• Minister and Board Chair develop annual Shareholder Letter of Expectations
BC Utilities Commission
(Regulator) Appointed by Cabinet
• Ensures public interest concerns are reflected in decision-making
Approves
• Construction of facilities
• Operation of facilities
• Capital & acquisition plans
• Revenues & rates
• Service levels & public safety
BC Hydro Board of Directors
Appointed by Cabinet
BC hydro
CEO Accountable to Board of Directors
Customers
Energy Suppliers
Stakeholders
First Nations

As a provincial Crown corporation, BC Hydro has a number of important reporting relationships within the overall provincial government structure. These are detailed in the above chart. Included are the direct reporting relationship to the Minister of Energy, Mines, and Petroleum Resources, the governance function of the Crown Agencies Secretariat and the role that our regulator – the BCUC – plays on behalf of the interests of our customers.

BC Hydro Shareholder-Regulatory Relationships Framework


Legislation
Hydro and Power Authority Act
British Columbia
Government (Shareholder)
Elected by BC Citizens
Legislation
Utilities Commission Act
Crown Agencies Secretariat (Governance)
Cabinet/Treasury Board
Ministry of Attorney General
• Minister Appointed by Premier
Ministry of Energy, Mines and Petroleum Resources
BC Utilities Commission
(Regulator) Appointed by Cabinet
• Minister Appointed by Premier
• Minister and Board Chair develop annual Shareholder Letter of Expectations
• Ensures public interest concerns are reflected in decision-making
Approves:
• Construction of facilities
• Operation of facilities
• Capital & acquisition plans
• Revenues & rates
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BC Hydro Board of Directors
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As a provincial Crown corporation, BC Hydro has a number of important reporting relationships within the overall provincial government structure. These are detailed in the above chart. Included are the direct reporting relationship to the Minister of Energy, Mines, and Petroleum Resources, the governance function of the Crown Agencies Secretariat and the role that our regulator – the BCUC – plays on behalf of the interests of our customers.

Alignment with the Government's Strategic Plan

BC Hydro is aligned with government's Strategic Plan and Goals:

Government Goals	BC Hydro's Alignment
• To make B.C. the best educated, most literate jurisdiction on the continent. • To lead the way in North America in healthy living and physical fitness. • To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.	Providing significant revenues to government to fund priority services such as health care and education, through various means such as the dividend and water rentals. Supporting charities and community organizations, as well as scholarships through direct monetary contributions both corporately and from current and retired employee organizations.
• To lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none.	Operating with a long-term, triple-bottom-line business approach that values social, environmental and financial factors. Investing in clean energy sources to meet growing demand. Promoting energy conservation and efficiency programs.
• To create more jobs per capita than anywhere else in Canada.	Providing low-cost, reliable electricity to maintain and enhance competitiveness of B.C. industries and businesses. Involving independent power producers in order to diversify energy supply, generate economic wealth and create jobs. Promoting energy conservation and efficiency programs which will create employment opportunities as products and services are developed.

Financial Results

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2007

The Management Discussion and Analysis reports on BC Hydro's consolidated results and financial position for the year ended March 31, 2007 (fiscal 2007). This discussion should be read in conjunction with the consolidated financial statements of the Company and related notes. This report contains forward–looking statements, including statements regarding the business and anticipated financial performance of BC Hydro. These statements are subject to a number of risks and uncertainties that may cause actual results to differ from those contemplated in the forward–looking statements.

For fiscal 2007, BC Hydro's results benefited from higher customer rates, increased consumption, higher energy trading income, lower energy costs, and lower amortization expense. Water inflows were 10 per cent lower than the prior year (and 12 per cent lower than average) resulting in lower hydro generation than in the prior year, however required energy purchases were made at a lower unit cost per megawatt hour (MWh) resulting in a reduction in the total cost of energy compared to the prior year.

HIGHLIGHTS

- Net income for the year ended March 31, 2007 was $407 million, an increase of $141 million from the prior year. This resulted in a return on equity of 13.44 per cent compared to 9.26 per cent for fiscal 2006.
- On November 10, 2006, the British Columbia Utilities Commission (Commission) approved the Negotiated Settlement Agreement (NSA) with respect to the F2007/2008 Revenue Requirements Application (F07/08 RRA). The Commission approved a rate increase of 1.54 per cent effective July 1, 2006 and a further 2.1 per cent effective February 1, 2007, for a total increase of 3.64 per cent. Included in the February 1, 2007 rate increase is a two per cent rate rider for the purpose of recovering a portion of the current balances in the energy deferral accounts.
- During the months from October to January, BC Hydro incurred $37 million in storm restoration costs related to several major storms that occurred throughout British Columbia. BC Hydro is applying to the Commission for recovery through future rates of the major storm costs incurred in excess of forecast.
- Property, plant and equipment and intangible asset expenditures of $807 million are 32 per cent higher ($197 million) than the prior year primarily due to building new and improving existing substation equipment, seismic upgrades, stator replacements and refurbishment of the generation facilities, and increased volume of new customer construction.

(dollar amounts in millions)	2007	2006	Change
Total Assets	$ 12,845	$ 12,484	$ 361
Retained Earnings	$ 1,783	$ 1,707	$ 76
Net Income	$ 407	$ 265	$ 141
Payment to the Province	$ 331	$ 223	$ 108
Return on Equity[1]	13.44%	9.26%	4.18%
Debt to Equity[1]	70:30	70:30	–
Number of Domestic Customers	1,736,741	1,704,671	32,070
GWh Sold (Domestic)	52,911	52,440	471
Property, Plant and Equipment and Intangible Asset Expenditures	$ 807	$ 610	$ 197

[1] *Based on equity as defined for regulatory purposes*

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2007

CONSOLIDATED RESULTS OF OPERATIONS

Income before regulatory accounts of $379 million for the year ended March 31, 2007 compares with $25 million in the previous year. The primary reasons for the increase in income before regulatory accounts is the increase in gross margin on sales of $257 million due to lower domestic and trade energy costs, lower operating costs of $89 million, and lower amortization expense of $28 million, offset by an increase in finance charges of $18 million.

Net income after regulatory account transfers was $407 million for the year ended March 31, 2007 compared with $266 million in the previous year. BC Hydro's net income increased significantly from fiscal 2006 mainly due to increased domestic revenue, increased income from energy trading activities, and lower amortization expense.

Revenues

	In millions		in gigawatt hours	
	2007	2006	2007	2006
Domestic:				
Residential	$ 1,070	$ 1,046	16,651	16,261
Light industrial and commercial	1,025	989	18,268	17,913
Large industrial	556	584	15,989	16,428
Other energy sales	140	108	2,003	1,838
	$ 2,791	$ 2,727	52,911	52,440
Trade:				
Electricity	$ 904	$ 1,076	33,372	29,906
Gas	502	508	7,964	6,641
	$ 1,406	$ 1,584	41,336	36,547
Total	$ 4,197	$ 4,311	94,247	88,987

Total revenues for the year of $4,197 million decreased 2.6 per cent over fiscal 2006 mainly due to decreased electricity trade revenue due to a lower average sales price. Volumes in 2007 of 94,247 GWh were 5.9 per cent higher than fiscal 2006 due to strong residential and light industrial customer demand and higher trade volumes.

Domestic Revenues

Total domestic revenues of $2,791 million for the year ended March 31, 2007 were $64 million or 2.3 per cent higher than the previous year. Average sales prices were higher than last year due to a 1.54 per cent rate increase from July 1, 2006 to January 31, 2007 and an additional 2.1 per cent increase effective February 1, 2007. Consumption was higher in the residential and light industrial and commercial sectors, offset by lower large industrial consumption. There was a 2.3 per cent increase in residential revenue due to 3.8 per cent cooler average temperatures during the year and the addition of 28,741 customers. Light industrial and commercial revenues increased 3.6 per cent from the higher rates and 3,306 additional customers. Revenue for large industrial customers decreased 4.8 per cent from fiscal 2006 due to reduced consumption as a result of lower economic activity in certain sectors and some industrial customers lowered their consumption to receive the benefit of a lower stepped rate provided to industrial customers who maintain or reduce their prior year consumption amounts. Other energy sales increased 29.6 per cent due to lower mark-to-market losses on forward energy contracts in fiscal 2007 compared to fiscal 2006.

Trade Revenues

The interconnection of BC Hydro's electricity system with systems in Alberta and the western United States facilitates sales and purchases of electricity outside of British Columbia. Energy trade activities are carried out by Powerex, a wholly owned subsidiary of BC Hydro. Trade activities help BC Hydro balance its system by being able to import energy to meet domestic demand when there is a supply shortage in the system due to such factors as low water inflows. Exports are made only after ensuring domestic demand requirements can be met.

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2007

CONSOLIDATED RESULTS OF OPERATIONS (continued)

Total trade revenues for the year ended March 31, 2007 were $1,406 million, a decrease of 11.2 per cent compared to $1,584 million in the prior year. Total trade sales volumes were 41,336 GWh, an increase of 13.1 per cent compared to 36,547 GWh in the prior year. The decrease in trade revenues is primarily due to a decrease in electricity trade revenue as average sales prices for electricity were 18.6 per cent lower than the prior year at an average gross price of $64.17/MWh (2006 – $78.86/MWh). This decrease was partially offset by an 11.6 per cent increase in electricity volumes which totaled 33,372 GWh (2006 – 29,906 GWh). In addition, gas trade revenues marginally decreased as a result of a 19.9 per cent increase in gas sales volumes which totaled 7,964 GWh (2006 – 6,641GWh) offset by a 17.6 per cent decrease in the average gross sales prices for gas which decreased to $62.33/MWh (2006 – $75.71/MWh).

The decrease in energy market prices in the current year was primarily driven by lower natural gas prices due to higher levels of North American gas storage inventories. This storage accumulated as a result of milder weather in the spring and summer months of 2006 and due to minimal supply interruptions compared to the previous year when there were several hurricanes.

Energy Costs

Energy costs are influenced primarily by the volume of energy consumed and the mix of sources of supply. The mix of sources of supply is influenced by variables such as the market price of energy, water inflows, reservoir levels, energy demand and environmental and social impacts.

Energy costs are comprised of the following sources of supply:

	($ in millions)		(gigawatt hours)		($per MWh)	
	2007	2006	2007	2006	2007	2006
Hydro generation	$ 259	$ 272	44,886	46,219	$ 5.82	$ 5.81
Purchases from Independent Power Producers and other long-term contracts	363	449	6,041	6,741	60.09	66.61
Other electricity purchases – Domestic	248	350	5,698	5,853	43.52	59.80
Gas for thermal generation	78	53	1,060	375	73.58	141.33
Transmission charges and other expenses	22	79	112	109	–	–
Allocation from (to) trade energy	67	(68)	656	(1,321)	64.32	71.75
Total Domestic	$ 1,037	$ 1,135	58,453	57,976	$ 17.74	$ 19.57
Other electricity purchases – Trade [1]	$ 438	$ 565	33,815	28,405	$ 50.34	$ 65.21
Remarketed gas	480	494	8,320	6,912	57.67	71.54
Transmission charges and other expenses	229	226	–	–	–	–
Allocation (to) from domestic energy	(67)	68	(656)	1,321	64.32	71.75
Total Trade	$ 1,080	$ 1,353	41,479	36,638	$ 56.52	$ 72.07
Total Energy Costs	$ 2,117	$ 2,488	99,932	94,614	$ 33.84 [2]	$ 39.90 [2]

[1] *Other electricity purchases in dollars include purchases for trade activities shown net of derivatives. Gigawatt hours and $ per MWh are shown at gross cost.*

[2] *Total cost per MWh includes other electricity purchases at gross cost.*

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2007

CONSOLIDATED RESULTS OF OPERATIONS (continued)

For the year ended March 31, 2007 total energy costs of $2,117 million were $371 million or 14.9 per cent lower than the previous year. The decrease is the result of a lower volume of purchases from IPPs, lower average purchase costs for domestic electricity purchases, lower transmission charges, and lower average costs for electricity and gas trade purchases. Total volume of energy supplied was 99,932 GWh, 5.6 per cent more than the prior year, with an average purchase price of $33.84/MWh, a 15.2 per cent decline over fiscal 2006. Domestic energy costs were $98 million lower than fiscal 2006, a decrease of 8.6 per cent. The change is a result of less hydro generation due to lower water inflows, reduced high cost purchases from Island Cogeneration due to an extended outage, and 9.4 per cent lower average unit costs. Thermal energy sources provided an additional 685 GWh's over last year due to increased production from Burrard Generating Station to meet demand during peak periods, offset by lower natural gas prices at $73.58 per MWh versus $141.33 per MWh last year.

Trade energy costs decreased $273 million, or 20.2 per cent, primarily as a result of lower electricity costs. The average gross trade electricity purchase price decreased 22.8 per cent to $50.34/MWh (2006 – $65.21/MWh). This decrease was partially offset by an increase in Powerex's electricity trade purchase volumes which increased 5,410 GWh, or 19.0 per cent. The difference between the electricity trade sales volumes and electricity trade purchase volumes of 443 GWh relates to energy that Powerex sold to BC Hydro in the current fiscal year that Powerex will repurchase from BC Hydro in future years. Gas trading costs decreased slightly as the average gross trade gas purchase price decreased 19.4 per cent to $57.67/MWh (2006 – $71.54/MWh). The decrease in the average gross trade gas purchase price was partially offset by a 20.4 per cent increase in gas trading volumes to 8,320 GWh (2006 – 6,912 GWh).

Water inflows into BC Hydro's reservoirs were 10 per cent lower during the year ended March 31, 2007 compared to the prior year. This resulted in a decrease in the volume of low-cost hydro generation, one factor influencing the level of electricity imports. The decision to import energy instead of utilizing hydro generation is based on many factors, such as the forecast market price of energy in future periods relative to the current period, current reservoir levels and future demand requirements. Operating constraints related to legal and regulatory obligations such as minimum reservoir levels and stream flow requirements also affect the decision to import energy.

Despite lower inflows, reservoirs have been managed such that the combined storage in BC Hydro reservoirs at March 31, 2007, was 103 per cent of average compared with 124 per cent of average at March 31, 2006 (average storage levels relate to the average from 1986 to 2006), with the Williston Reservoir on the Peace River system at 97 per cent of average (2006 – 128 per cent) and the Kinbasket Reservoir on the Columbia River system at 110 per cent of average (2006 – 115 per cent). The lower reservoir level this year positions BC Hydro well to absorb the higher expected system runoff in fiscal 2008 due to the current snowpack conditions.

Operations costs

Operations costs for the year ended March 31, 2007 were $107 million lower than the previous year. The decrease from fiscal 2006 was primarily due to a $44 million decrease in demand-side management program expenditures in fiscal 2007 and the $88 million provision made in the prior year for First Nation settlement costs. These were partially offset by a $17 million increase in provisions for California litigation matters.

Expenditures on demand-side management programs (Power Smart) were lower in fiscal 2007 as incentive payments were reduced due to the implementation of stepped rates for industrial customers. Stepped rates provide a two-tier rate plan to Industrial customers to encourage them to reduce their consumption by charging them a lower rate for consumption levels below a target based on historical usage. Several industrial customers took advantage of stepped rates instead of Power Smart initiatives to reduce their costs in fiscal 2007.

Maintenance costs

Maintenance costs for the year ended March 31, 2007 were $45 million higher than the previous year. The increase was primarily due to the $37 million of storm restoration costs incurred during several major storms which took place during the winter months and additional corrective maintenance and rewedging costs incurred for the generation assets.

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2007

CONSOLIDATED RESULTS OF OPERATIONS (continued)

General and administrative costs

Total general and administrative costs were $27 million lower for year ended March 31, 2007 compared to the prior year. The reduction is primarily a combination of lower employee related costs, non-current service pension expense, and environmental remediation costs compared to fiscal 2006.

Amortization Expense

Amortization expense for the year ended March 31, 2007 was $28 million lower than the previous year. This reduction is the result of the write-down of certain assets at the Burrard Generating Station of $23 million in fiscal 2006 and reduced depreciation expense of $13 million arising from a revision in estimated asset service lives based on a depreciation study undertaken by the Company.

Finance Charges

Finance charges for the year ended March 31, 2007 were $18 million higher than the previous year. This was primarily a result of the higher U.S. short-term interest rates on debt refinancing ($36 million), lower U.S. dollar sinking fund income ($15 million) and a higher average volume of debt ($15 million). This is partially offset by the favourable variances in foreign exchange due to a stronger Canadian dollar in fiscal 2007 ($29 million), and higher interest capitalized during construction ($14 million).

Return on Equity and Payment to the Province

(dollar amounts in millions)	2007	2006
Actual return on equity [1]	13.44%	9.26%
Allowed return on equity	13.10%[2]	13.51%
Payment to the Province	$ 331	$ 223

[1] *Based on equity as defined for regulatory purposes.*

[2] *BC Hydro's allowed rate of return was approved by the Commission in its rate decision of November 10, 2006. The allowed return on equity has been calculated to equal, on a pre-income tax basis, that of the most comparable investor-owned utility.*

BC Hydro is required to make an annual Payment to the Province equal to 85 per cent of its distributable surplus.

Liquidity and Capital Resources

Cash flow provided by operating activities for the year ended March 31, 2007 was $557 million, compared with $637 million for the prior year. The primary reason that cash flow provided by operating activities decreased in fiscal 2007 is due to solvency payments made to the BC Hydro Pension Benefit Plan of $111 million and other decreases in working capital of $129 million, offset by increased income over fiscal 2006.

BC Hydro is subject to an overall borrowing limit of $8,800 million, net of sinking funds. At March 31, 2007 BC Hydro had an unused borrowing capacity totalling $1,876 million. During fiscal 2007, BC Hydro issued $300 million of new bonds and increased revolving borrowing by $407 million. The funds from these issues, cash flows from operations and sinking funds were used to redeem $526 million of bonds, fund the Payment to the Province and fund property, plant and equipment expenditures. Long-term debt, net of sinking funds and cash and cash equivalents, was $6,916 million at March 31, 2007, compared to $6,627 million as at the end of the prior year.

Property, Plant and Equipment and Intangible Asset Expenditures

Property, plant and equipment and intangible asset expenditures were as follows:

(in millions)	2007	2006	Increase
Generation replacements and expansion	$ 180	$ 130	$ 50
Transmission lines and substation replacements and expansion	247	161	86
Distribution improvements and expansion	295	249	46
General – including computers and vehicles	85	70	15
Total property, plant and equipment and intangible asset expenditures	$ 807	$ 610	$ 197

For the year ended March 31, 2007, the increase in generation replacements and expansion is due to work on station refurbishments, stator replacements, turbine overhauls, and seismic upgrades. The increase in transmission expenditures is due to construction of four new substations to meet customer load growth and several reinforcement projects. The increase in distribution improvements and expansion is due to a higher volume of customer construction and connections and increased system growth improvement work.

Mark-to-Market Gains and Losses

BC Hydro uses mark-to-market accounting on its contracted commitments for foreign exchange transactions and Powerex trading transactions that meet the definition of a derivative and are not designated as effective hedges. Mark-to-market gains are recorded as assets and losses are recorded as liabilities on the balance sheet. As at March 31, 2007, BC Hydro recorded a net gain of $18 million ($61 million gain less $43 million loss) compared to a net loss of $24 million in last year from mark-to-market transactions.

Comparison with Service Plan

Each year, BC Hydro's Service Plan is prepared for presentation to the British Columbia Legislature under the *Budget Transparency and Accountability Act*. The plan outlines BC Hydro's goals, objectives and key strategies, along with the results it expects to achieve for the following three-year period.

In BC Hydro's February 2006 Service Plan, fiscal 2007 net income was forecast to be $50 million.

Actual income before regulatory account transfers for the year ended March 31, 2007 was $379 million which was $361 million higher than the February 2006 Service Plan forecast of $18 million. This is primarily due to lower than forecasted cost of energy due to lower energy purchase costs and lower volume of IPP purchases during fiscal 2007 and the rate increase approved by the Commission which was not included in the Service Plan forecast.

Trade revenues were $688 million lower than the February 2006 Service Plan due to a 30 per cent lower average trade sales price. This is offset by lower trade energy costs due to 39 per cent lower average trade energy prices.

Operations costs increased $78 million from the February 2006 Service Plan due to increased legal costs and a change in the presentation of demand-side management program expenditures and First Nations costs on the income statement. Maintenance costs increased $43 million from the 2006 Service Plan mainly due to unplanned storm restoration costs incurred during the winter months. Administration costs decreased $27 million due to the lower non-current service pension costs and lower employee related expenses.

Amortization expense is $48 million lower than the February 2006 Service Plan due to delays in projects during the year, resulting in fewer assets in service.

The impact to net income of these variances is partially transferred to regulatory accounts. As a result, the actual net income of $407 million was $357 million more than the February 2006 Service Plan.

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2007

Comparison with Service Plan (continued)

The table below provides an overview of BC Hydro's financial performance relative to its 2007 to 2009 Service Plan Update (February 2006). The results and forecasts form the basis upon which key performance targets are set.

	|-----------------Actual	-----------------	-----------------|	Service Plan Forecast	Service Plan Variance
in millions	2005	2006	2007	2007	2007
Revenues					
Domestic					
Residential	$ 1,016	$ 1,046	$ 1,070	$ 1,071	$ (1)
Light Industrial and Commercial	967	989	1,025	1,016	9
Large Industrial	573	584	557	574	(18)
Other energy sales	88	93	99	90	9
Miscellaneous	60	16	41	56	(15)
Total Domestic	2,704	2,727	2,791	2,807	(16)
Trade	1,021	1,584	1,406	2,094	(688)
Total	3,725	4,311	4,197	4,901	(704)
Expenses					
Energy costs	1,959	2,488	2,117	3,195	1,078
Operating costs	717	805	716	622	(94)
Taxes	143	147	149	152	3
Amortization	410	411	383	431	48
	3,229	3,851	3,365	4,400	1,035
Operating Income	496	460	832	501	331
Finance charges	318	435	453	483	30
Payment from Alcan Inc.	137	–	–	–	–
Income Before Regulatory Account Transfers	315	25	379	18	361
Regulatory Account Transfers	87	241	28	32	(4)
Net Income	$ 402	$ 266	$ 407	$ 50	$ 357

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2007

Accounting Policies

Regulatory Accounting

BC Hydro applies various accounting policies that differ from Canadian generally accepted accounting principles for enterprises that do not operate in a rate-regulated environment. Generally, these policies result in deferral and amortization of certain costs and recoveries to allow for adjustment of future rates. In the absence of rate regulation, these amounts would otherwise be included in the determination of net income in the year the amounts are incurred. These accounting policies support BC Hydro's regulation and have been established through ongoing application and approval of the Commission.

Accounting Pronouncements

Financial Instruments, Hedges and Comprehensive Income

In 2005, the CICA released Handbook sections 3855, 3865 and 1530, respectively entitled Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income.

Section 3855 specifies when a financial instrument should be accounted for on the balance sheet and at what amount – in some cases at fair value, while in other cases at a value based on cost. It also specifies how gains and losses on financial instruments should be presented.

Section 3865 replaces the guidance for hedging relationships that previously was included in Accounting Guideline 13, in particular the guidance for the designation and documentation of hedging relationships. These new recommendations specify how hedge accounting is applied and the required disclosures to be made by an entity applying hedge accounting.

Section 1530 establishes standards for the presentation and disclosure of comprehensive income. Comprehensive income for a reporting period includes, in addition to net income, the entire change in net assets attributable to transactions and other events from non-owner sources. Comprehensive income and its components will have to be presented in a financial statement with the same prominence as the other financial statements.

These sections will apply to the Company's fiscal 2008 interim and annual financial statements. The Company is currently examining the impact on its consolidated financial statements of applying these new standards.

Accounting for Rate Regulated Operations

In March 2007, the Canadian Accounting Standards Board ("AcSB") issued an Exposure Draft on rate regulated operations which, if adopted, will be effective beginning on or after January 1, 2009. The Exposure Draft proposes: (i) the temporary exemption in Section 1100, Generally Accepted Accounting Principals, of the CICA Handbook providing relief to entities subject to rate regulation from the requirement to apply the Section to the recognition and measurement of assets and liabilities arising from rate regulation be removed; (ii) withdraw from the Handbook all other recognition and measurement guidance relating specifically to rate-regulated operations; and (iii) retain Accounting Guideline 19, Disclosures by Entities Subject to Rate Regulation, as is. The AcSB has also observed that relying on U.S. Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation ("FAS 71"), as another source of Canadian GAAP in the absence of CICA Handbook guidance addressing the specific circumstances of entities subject to rate regulation, is consistent with Section 1100 when the qualifying criteria of FAS 71 are met. The Company is currently assessing the implications of the Exposure Draft on future financial reporting.

Employee Future Benefits

In March 2007, the AcSB issued an Exposure Draft on employee future benefits which, if adopted, will be effective for fiscal years ending on or after December 31, 2007. The Exposure Draft proposes balance sheet recognition of the funded status of defined benefit plans. Currently, the Company is only required to disclose the funded status in the Notes to the financial statements. The Company is currently assessing the implications of this Exposure Draft on its future financial reporting.

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2007

Regulation Updates

Rate Hearings

In regulating and setting rates for BC Hydro, the Commission must ensure that the rates are sufficient to allow BC Hydro to provide reliable electricity service, meet its financial obligations, comply with government policy and achieve an annual rate of return on equity based on forecast consolidated net income. The annual rate of return on equity is equal to the pre-income tax annual rate of return allowed by the Commission to the most comparable investor-owned energy utility regulated under the *Utilities Commission Act*. The allowed annual rate of return on equity calculated for fiscal 2007 was 13.10 per cent (2006 – 13.51 per cent). The actual rate of return in 2006 was 13.44 per cent.

On November 10, 2006, a Negotiated Settlement Agreement (NSA) was approved by the Commission with respect to the F07/08 RRA. The Commission approved rate increases of 1.54 per cent for July 1, 2006 to January 31, 2007 and a further 2.1 per cent, effective February 1, 2007 onward, for a total increase of 3.64 per cent.

Included in the February 1, 2007 rate increase is a rate rider of two per cent for the purpose of recovering a portion of the current balances in the Heritage Deferral Account, Non Heritage Deferral Account, Trade Income Deferral Account and BCTC Deferral Account. The rate rider has an indefinite term. Recovery of deferral accounts in fiscal 2007 was $50 million.

As part of the NSA, the Commission approved the following regulatory accounts:

- Large Hydro Investigation Costs
- Depreciation Study Adjustments
- Contributions in Aid Amortization Variance

Major Storm Restoration Costs

During the period from October 2006 to January 2007, BC Hydro incurred significant costs in repairing the distribution system and restoring power to customers after several severe storms swept through the Province of British Columbia. The Company has categorized five of these storms as major and is currently applying to the Commission to recover maintenance expenses associated with these storms through future rates. The recoverability of these expenses is subject to final approval of the application by the Commission.

Powerex Legal Proceedings

Since 2000, Powerex has been named, in some cases along with other energy providers, as a defendant in a number of lawsuits and U.S. federal regulatory proceedings which seek damages and/or contract rescission based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and that the energy prices were not just and reasonable. These proceedings are at various stages. A number of issues and findings are presently on appeal and none have been the subject of final judicial action. The U.S. Court of Appeals for the Ninth Circuit, in its *Lockyer* decision of July 31, 2006, told the U.S. Federal Energy Regulatory Commission (FERC) that it should reconsider its remedial powers thereby opening up the possibility that refunds will have to be paid for the periods from May to October 2000. On August 2, 2006, the Ninth Circuit ruled on certain issues in the FERC refund proceedings. One of those related to whether refunds should be paid for bilateral sales [those that did not go through the California Independent System Operator (CISO)]. In its decision, the Ninth Circuit upheld FERC's decision that refunds should not be paid for bilateral sales but also said that FERC was wrong to conclude that it did not have power to award refunds retroactively. The precise effect of these decisions on Powerex cannot be determined at this time.

At March 31, 2007, Powerex was owed U.S. $268 million (CDN $309 million) by the markets operated by the California Power Exchange (Cal Px) and the CISO related to Powerex's electricity trade activities in California during fiscal 2001. As a result of payment defaults by a number of California utilities, the Cal Px and CISO were unable to pay these amounts to Powerex. That receivable will be offset against any refunds that Powerex is required to pay.

Powerex Legal Proceedings (continued)

On March 26, 2004, FERC approved a settlement agreement between FERC staff and Powerex that acknowledged that there was no evidence that Powerex engaged in any gaming practices or concerted partnership practices with any other market participants, and further noted that Powerex was a valuable and reliable supplier of energy and ancillary services to the California market throughout the energy crisis. This settlement is still subject to rehearing at FERC, has not been the subject of a final FERC order and FERC's final order when issued may subsequently be appealed to the courts.

BC Hydro was also joined as a defendant in the California Consumer Class Action lawsuit through cross-claims by other defendants. In response to an application by BC Hydro to be dismissed from the lawsuit, a U.S. Federal District Court judge ruled that BC Hydro is immune from these claims in the United States by virtue of the *Foreign Sovereign Immunities Act*. The Ninth Circuit upheld this finding. The court also upheld the District Court's finding that Powerex does not enjoy foreign sovereign entity status and therefore remains a party to the lawsuit, which was ordered to be remanded back to California State Court. Powerex requested its appeal of the decision be heard by the Supreme Court of the United States. The Supreme Court heard the case on April 16, 2007 and a decision from them is pending.

Due to the ongoing nature and uncertain status of the regulatory and legal proceedings related to the California power markets, management cannot predict at this time the outcome of the claims against Powerex. Powerex has recorded provisions for uncollectible amounts and legal costs associated with the ongoing legal and regulatory impacts of the California energy crisis during fiscal 2001. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that may ultimately be collected or paid may differ from management's current estimates. Management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the process.

Risk Management

BC Hydro's operations involve a broad spectrum of risks ranging from those commonly associated with any business to catastrophic societal loss risks that would have severe effects on entire regions. The key risks BC Hydro faces are divided into five categories for management purposes: employee, public and dam safety; reliability; financial performance; organization risk; and environmental.

Employee, Public and Dam Safety

Safety risks to the public exist due to the multiple uses of water for electricity generation, recreation and waterways. Risks can also result from potential contact with transmission and distribution equipment located in communities. To manage the public safety risk, BC Hydro relies on design, construction and operating standards and practices, signage, consultation with other agencies and stakeholder groups, and public education. BC Hydro also prepares emergency response plans to limit injury and loss of life and to restore electric service.

Many of BC Hydro's employees face the risk of serious injury or death by the nature of their jobs in dealing with electrical hazards. In order to mitigate these inherent risks, BC Hydro has a comprehensive safety management system that includes employee involvement, communication, training, resources, policies and safety practice regulations.

The large dams represent a catastrophic loss risk (low probability but high consequence) to BC Hydro in terms of life safety, financial, environmental and reputation. This dam failure risk is managed through a comprehensive dam safety management system involving dam safety professionals and experts. The system incorporates dam surveillance and monitoring, periodic independent reviews of dam performance, dam investigations and analysis. Dam upgrades may be required due to changes in knowledge, standards or extreme event parameters (for earthquake, floods, landslides). BC Hydro follows the B.C. Dam Safety Regulation, participates in the Canadian Dam Association and the International Commission on Large Dams, and engages panels of international experts for independent advice on the management and control of these risks.

Risk Management (continued)

Reliability

The most significant risk to the reliability of BC Hydro's system is the impact of weather. With BC Hydro's large service territory there is significant exposure to trees, terrain and diverse weather patterns. BC Hydro mitigates the likelihood and consequence of such impacts through effective design, construction, operations, maintenance and response. BC Hydro manages these risks by balancing customers' expectations and cost considerations. Reliability risks could also result from either a lack of available generation supply or the associated transmission capacity to meet customer demand. BC Hydro manages these risks through long-term planning, asset maintenance programs, reliance on a diverse supply of energy options, and through cooperative support arrangements with neighbouring utilities.

BC Hydro must meet government permitting requirements to operate its facilities and build new infrastructure, which can have an impact on project lead times. Delays in obtaining appropriate permits and consent could adversely impact reliability.

Financial Performance

In meeting its financial performance targets, BC Hydro faces many risks including energy costs, energy demand, interest and foreign exchange rates, pension obligations, and energy trading. Of these, risks associated with energy costs – specifically water inflows and energy market prices – are the largest.

Increasing costs due to aging infrastructure, the need for new supply and the need to manage environmental impacts create challenges for BC Hydro in maintaining the low electricity cost advantage the province enjoys. How BC Hydro manages tradeoffs between these competing objectives will be important to its financial performance and its ability to make the required infrastructure investment. External long-term costs of environmental and social impacts need to be factored into decision-making today to ensure the right business decisions are made for the long-term.

Energy Cost

Energy cost risk is the most significant financial risk to BC Hydro. It can result when BC Hydro is required to purchase electricity from the markets due to increased electricity demand in B.C. or lower-than-expected water inflow levels. It can also result from changing market prices for electricity and natural gas. Over the past five years, BC Hydro has experienced below average water inflows and has increasingly relied on volatile energy trading markets in order to meet domestic demand. BC Hydro manages energy cost risk through its flexible hydroelectric system, which allows water to be stored in large reservoirs and used when it is most economic, and by hedging the cost of imported electricity.

Energy Demand

Energy demand is increasing as B.C.'s population increases and its economy grows. However, this demand increase can be volatile particularly from larger customers whose consumption is often driven by export markets and world commodity prices. BC Hydro is fully exposed to price risk on all customer demand in excess of its planned load, as customer rates are based on average costs (including heritage energy costs), which are significantly below the price of market purchases.

Interest Rates and Foreign Exchange Rates

Changes in interest and foreign exchange rates can significantly impact BC Hydro's finance charges. BC Hydro debt-management strategies include limiting the allowable percentage range of variable interest rate debt, and closely monitoring settlement and counterparty credit risks associated with both derivative and foreign exchange currency agreements. Interest and foreign exchange rate changes can also influence the performance and cost of BC Hydro's employee benefit and pension plans.

At March 31, 2007, $2,666 million or 37.6 per cent of net debt was subject to interest rate reset within the next fiscal year. Interest rate risk is managed through Board approved policies, which require the debt portfolio to be managed using an appropriate blend of fixed and floating rate debt, as well as by managing the term to maturity of its debt portfolio to manage exposure to interest rate movements in the future. BC Hydro utilizes financial instruments, including interest rate swaps and options, to adjust the balance of fixed and floating rate debt, and to reduce its overall cost of borrowing.

Risk Management (continued)

BC Hydro is exposed to exchange rate risk through the cost of U.S. dollar electricity purchases and surplus sales, gains from U.S. trading activity, U.S. dollar capital equipment purchases and U.S. dollar debt servicing. Foreign exchange risk is managed through Board approved policies. Both foreign exchange and interest rate risk are monitored and reported on a monthly basis.

Energy Trading

BC Hydro's energy trading subsidiary, Powerex, is exposed to the risk of variable market prices and counterparties who might not meet their obligations. Powerex manages these risks by operating through defined limits that are regularly reviewed by both the Powerex and BC Hydro Boards of Directors. Powerex primarily focuses on near to mid-term trading positions, backing forward commitments with the physical supply capability of the BC Hydro System, the Canadian Entitlement, and other supply contracts, while operating within Board approved market and credit limits. Longer-term positions are reviewed in the context of the overall energy trading portfolio.

Powerex is exposed to the risk of litigation, such as the potential liabilities from the California power crisis. The conduct of Powerex employees is governed by its Trading Code of Conduct and Compliance policies and procedures. Powerex also adheres to the Electric Power Supply Association's Code of Ethics and Sound Trading Practices for Electric Power Suppliers to guide its trading activities.

Regulatory Risk

BC Hydro is permitted to earn an allowed return on equity. Tariff rates are set based upon BC Hydro's cost and equity forecast. Many risks (difference between forecast and actual costs) associated with uncontrollable costs are covered through regulatory deferral accounts. The major cost components susceptible to variation included in the regulatory deferral accounts are water inflows, energy prices including thermal fuel costs, major unplanned capital costs and trade income. BC Hydro's risk includes those associated with capital assets, domestic load volumes and prices, maintenance, operations and administration costs, and debt related costs.

Organizational Risk

An aging population is changing the dynamics for attracting skilled people at the same time many employees are retiring or are eligible to retire. In BC Hydro, an increasing number of employees are becoming eligible for retirement. Furthermore, short-term economic growth is outstripping resource capacity with a consequent pressure on labour availability and cost. This shortage of capable labour and the potential loss of institutional knowledge poses a risk to BC Hydro's ability to deliver on projects and capital plans.

Environmental and Social Performance

BC Hydro's environmental responsibility policy states that BC Hydro will meet or exceed environmental regulations defined by legislation, regulation, government directives and guidelines, as well as its commitments and agreements. Even if there is no environmental or social regulation, BC Hydro can face risks. These risks are managed through voluntary activities, such as the Water Use Plans. Voluntary action is taken with a view to managing long-term risk and for cost controls.

Areas where BC Hydro is exposed to the risk of non-compliance with environmental regulations include the release of hazardous materials into the environment, endangerment of wildlife and their habitats, or damage to heritage sites where there is evidence of historic human occupation. These risks are managed through environmental management systems and risk mitigation strategies.

BC Hydro's Board approved a corporate social responsibility policy in May 2004. The organization is building practices in this area to manage emerging risks associated with suppliers, employees, stakeholders and First Nations.

First Nation past grievances, land claims, service reliability and regulatory processes pose risks to BC Hydro. BC Hydro manages these risks through a comprehensive Aboriginal Relations program. The long-term goal of further building business relationships with First Nations is intended to go beyond addressing the impact of BC Hydro facilities on First Nations and reducing the associated financial, legal and operating risks, to having a more proactive, mutually beneficial approach to working together.

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2007

OUTLOOK

BC Hydro's Service Plan is required to be filed in February of each year under the Budget Transparency and Accountability Act. BC Hydro's February 2007 Service Plan forecast income before regulatory deferral account transfers for fiscal 2008 is $324 million and forecast net income is $365 million. The Service Plan includes the final rate increases approved by the Commission in the NSA.

BC Hydro's earnings can fluctuate significantly due to various non-controllable factors such as the level of water inflows, market prices for electricity and natural gas, weather temperatures, interest rates and foreign exchange rates. The February 2007 forecast for fiscal 2008 assumes a customer load increase of 1.88 per cent, 100 per cent of normal total system water inflows, average market electricity purchase prices of U.S. $60/MWh, short term interest rates of 4.24 per cent and a U.S. dollar exchange rate of U.S. $0.87.

The 2008 first quarter forecast update increased forecast total system inflows to 109 per cent of normal and average energy prices to U.S. $61/MWh for fiscal 2008. As a result, cost of energy for domestic load is expected to decrease by $175 million, however this positive variance will flow into the energy deferral accounts. As a result, income before regulatory transfers is now forecast to be $477 million and net income is forecast to be unchanged at $365 million.

The estimated rate increases for fiscal 2009 to 2011 have decreased from 5.86 per cent, 3.74 per cent and 7.81 per cent respectively in the Service Plan to 3.88 per cent, 5.71 per cent and 6.14 per cent in this forecast update. On a cumulative basis, the rate increase is 16.55 per cent by the end of fiscal 2011 compared to 18.40 per cent in the Service Plan. The forecast rate increases are indicative only and have not been approved by the Commission. The forecast rate increases are subject to change given the volatility around several assumptions including water inflows and market prices for energy.

EARNINGS SENSITIVITY

The following table shows the effect on earnings of changes in some key variables. The analysis is based on business conditions and production volumes forecast for fiscal 2008. Each separate item in the sensitivity analysis assumes the others are held constant. While these sensitivities are applicable to the period and magnitude of changes on which they are based, they may not be applicable in other periods, under other economic circumstances or greater magnitude of changes.

Factor	Change	Approximate change in earnings before regulatory deferral account transfers (in millions)	5 year high	5 year low
Hydro generation[1]	1,000 GWh	$ 60	47,665 GWh	41,601 GWh
Electricity trade margins	$1/MWh	35	n/a	n/a
Interest rates	+/- 1%	29	4.33% [2]	2.39% [2]
Exchange rates (CDN/U.S.)	$ 0.01	3	$ 0.88[3]	$ 0.65[3]
Weather	1°C change in average temperature	1	1.3°C [4]	−0.2°C [4]
Pension costs	1% change in the expected return of 7.2% on pension assets [5]	3	15.00%	−4.10%

[1] *Assumes change in hydro generation is offset by corresponding change in energy imports (i.e. increase in hydro generation is offset by decrease in energy imports).*

[2] *Interest rates are the average Canadian short-term interest rates (3 month Canadian Dollar Offered Rate).*

[3] *Exchange rates are the average Canadian Dollar noon rates for F2003 to F2007.*

[4] *Weather high and low numbers represents the variance in degrees Celsius from the normal temperatures over the winter months November to March from 2002/03 to 2006/07. (−0.2 degrees lower than normal to 1.3 degrees higher than normal – normal is the 10-year rolling average).*

[5] *The impact of this change affects earnings in the subsequent year.*

MANAGEMENT REPORT

The consolidated financial statements of British Columbia Hydro and Power Authority (BC Hydro) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available at May 11, 2007. The consolidated financial statements have also been reviewed by the Audit and Risk Management Committee and approved by the Board of Directors. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Risk Management Committee.

The consolidated financial statements have been examined by independent external auditors. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements, in all material respects, fairly present BC Hydro's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

The Board of Directors, through the Audit and Risk Management Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit and Risk Management Committee, comprised of directors who are not employees, meets regularly with the external auditors, the internal auditors and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Directors. The Audit and Risk Management Committee also recommends the appointment of external auditors to the Board of Directors. The internal and external auditors have full and open access to the Audit and Risk Management Committee, with and without the presence of management.

R.G. (Bob) Elton
President
and Chief Executive Officer

A. (Alister) Cowan
Executive Vice-President Finance
and Chief Financial Officer

Vancouver, Canada
May 11, 2007

AUDITORS' REPORT

The Lieutenant Governor in Council, Province of British Columbia:

We have audited the consolidated balance sheet of British Columbia Hydro and Power Authority as at March 31, 2007 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of British Columbia Hydro and Power Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of British Columbia Hydro and Power Authority as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Vancouver, Canada
May 11, 2007

CONSOLIDATED STATEMENT OF OPERATIONS

for the years ended March 31 *(in millions)*	2007	2006
Revenues		
Domestic	$ 2,791	$ 2,727
Trade	1,406	1,584
	4,197	4,311
Expenses		
Energy costs:		
Domestic	1,037	1,135
Trade	1,080	1,353
Operations	266	373
Maintenance	312	267
General & administration	138	165
Amortization (Note 3)	383	411
Taxes	149	147
	3,365	3,851
Operating Income	832	460
Finance charges (Note 4)	(453)	(435)
Income Before Regulatory Accounts	379	25
Net change in regulatory accounts (Note 2)	28	241
Net Income	$ 407	$ 266

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the years ended March 31 *(in millions)*	2007	2006
Retained earnings, beginning of year	$ 1,707	$ 1,688
Removal of British Columbia Transmission Corporation from consolidated accounts (Note 15)	–	(24)
Net income	407	266
Payment to the Province (Note 2)	(331)	(223)
Retained Earnings, end of year	$ 1,783	$ 1,707

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

as at March 31 *(in millions)*	2007	2006
ASSETS		
Property, Plant and Equipment, net (Note 5)	$ 9,998	$ 9,610
Current Assets		
Cash and cash equivalents	8	23
Accounts receivable and accrued revenue	512	446
Materials and supplies	137	135
Prepaid expenses	110	93
Mark-to-market gains	61	57
	828	754
Other Assets and Deferred Charges		
Intangible assets, net (Note 6)	424	413
Sinking funds (Note 7)	733	846
Regulatory assets (Note 2)	862	861
	2,019	2,120
	$12,845	$12,484
LIABILITIES AND EQUITY		
Long-term debt net of sinking funds	$ 5,502	$ 5,696
Sinking funds presented as assets	733	846
Long-Term Debt (Note 8)	6,235	6,542
Current Liabilities		
Current portion of long-term debt (Note 8)	1,422	954
Accounts payable and accrued liabilities	1,267	1,089
Mark-to-market losses	43	81
	2,732	2,124
Other Liabilities		
Regulatory liabilities (Note 2)	413	440
Deferred contributions (Note 10)	913	856
Debt issue and related costs	145	125
Other long-term liabilities (Note 11)	459	538
Foreign currency contracts (Notes 8 and 9)	165	152
	2,095	2,111
Retained Earnings	1,783	1,707
	$12,845	$12,484

Commitments and Contingencies (Note 13)

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:

L.I. (Larry) Bell
Chair

W.C. (Wanda) Costuros
Chair, Audit & Risk Management Committee

CONSOLIDATED STATEMENT OF CASH FLOWS

for the years ended March 31 *(in millions)*	2007	2006
Operating Activities		
Net income	$ 407	$ 266
Regulatory account transfers	(121)	(212)
Adjustments for non-cash items:		
Amortization of regulatory accounts	93	59
Amortization of property, plant and equipment	346	377
Amortization of intangible assets	37	34
Foreign exchange translation (gains) losses	(2)	18
Amortization of debt issue and related costs	(7)	(9)
Deferred revenue	20	15
Unrealized mark-to-market (gains) losses	(41)	26
Sinking fund income	(39)	(54)
Employee benefit plan expenses	29	35
Other non-cash items	12	19
	734	574
Working capital changes	(177)	63
Cash provided by operating activities	557	637
Investing Activities		
Property, plant and equipment and intangible assets	(780)	(607)
Deferred contributions	85	68
Dismantling costs	(16)	(11)
Proceeds from property sales	7	2
Cash used for investing activities	(704)	(548)
Financing Activities		
Bonds issued	300	400
Bonds retired	(526)	(616)
Revolving borrowings	407	188
Sinking fund withdrawals	147	194
Debt issue and related costs	27	90
Payment to the Province	(223)	(339)
Cash provided by (used for) financing activities	132	(83)
(Decrease) increase in cash and cash equivalents	(15)	6
Cash and cash equivalents, beginning of year	23	17
Cash and cash equivalents, end of year	$ 8	$ 23
Supplemental disclosure of cash flow information		
Interest paid	$ 512	$ 498

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Purpose

British Columbia Hydro and Power Authority (BC Hydro) was established in 1962 as a Crown corporation of the Province of British Columbia (the Province) by enactment of the *Hydro and Power Authority Act*. As directed by the *Hydro and Power Authority Act*, BC Hydro's mandate is to generate, manufacture, distribute and supply power. BC Hydro's corporate purpose is to provide "Reliable power, at low cost, for generations." BC Hydro is subject to regulation (see Note 2) by the British Columbia Utilities Commission (the Commission) which, among other things, approves the rates BC Hydro charges for its services.

BC Hydro owns and operates electric generation and distribution facilities in the Province of British Columbia. BC Hydro also owns transmission facilities in the province of British Columbia that are operated by British Columbia Transmission Corporation (BCTC), an independent Crown corporation of the Province.

Consolidation

The consolidated financial statements include the accounts of BC Hydro and its principal wholly-owned operating subsidiaries Powerex Corp. (Powerex), Powertech Labs Inc., BCH Services Asset Corp., and Columbia Hydro Constructors Ltd. All intercompany transactions and balances are eliminated upon consolidation.

Use of Estimates

Management of BC Hydro has made a number of estimates and assumptions relating to the reporting of assets and liabilities and to the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with Canadian generally accepted accounting principles (GAAP). Actual results could differ from these estimates.

Regulatory Accounting

BC Hydro is regulated by the Commission, and they are both subject to general or special directives and directions issued by the Province. BC Hydro operates primarily under a cost of service regulation as prescribed by the Commission. Orders in Council from the Province establish the basis for determining BC Hydro's equity for regulatory purposes, as well as its allowed return on equity and the annual Payment to the Province. Calculation of its revenue requirements and rates charged to customers are established through applications filed with and approved by the Commission.

BC Hydro applies various accounting policies that differ from Canadian GAAP for enterprises that do not operate in a rate-regulated environment (see Note 2). Generally, these policies result in deferral and amortization of costs and recoveries to allow for adjustment of future rates. In the absence of rate-regulation, these amounts would otherwise be included in the determination of net income in the year the amounts are incurred. These accounting policies support BC Hydro's regulation and have been established through ongoing application by approval of the Commission.

Revenues and Energy Costs

Domestic revenues comprise sales to customers within the province of British Columbia, and sales of firm energy outside the province under long-term contracts that are reflected in BC Hydro's domestic load requirements. Other sales outside the province are classified as trade.

Trade revenues and energy costs include the effects of using commodity derivatives. The impacts on trading transactions of realized and unrealized gains and losses resulting from changes in fair value are reflected on a net basis.

Revenue is recognized on the basis of billing cycles and also includes accruals for electricity deliveries not yet billed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date.

Property, Plant and Equipment

Property, plant and equipment in service are recorded at cost which includes materials, direct and indirect labour, an appropriate allocation of administration overhead and finance charges capitalized during construction. Property, plant and equipment in service include the cost of plant financed by contributions in aid of construction and contributions arising from the Columbia River Treaty. Upon retirement or disposal, any gain or loss is charged to amortization.

Unfinished construction consists of costs of property, plant and equipment that are under construction or not ready for service. Costs are transferred to property, plant and equipment in service when the constructed asset is substantially complete and capable of operation at a significant level of capacity.

Property, plant and equipment in service are amortized on an individual or pooled basis over the expected useful lives of the assets, generally using the straight-line method.

The expected useful lives, in years, of BC Hydro's main classes of property, plant and equipment are:

Generation	
Hydraulic	50 – 100
Thermal	10 – 50
Lines	35 – 100
Substations	20 – 50
Buildings	45 – 50
Equipment	7 – 20
Computer hardware	2 – 10
Service vehicles	7 – 20
Sundry	20 – 45

Intangible Assets

Intangible assets are recorded at cost. Intangible assets with indefinite useful lives are not subject to amortization. These assets are tested for impairment annually or more frequently if events indicate that the asset may be impaired.

Intangible assets with finite useful lives are amortized over their useful lives on a straight line basis. These assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be fully recoverable. The expected useful lives, in years, are as follows:

Software	2 – 10
Land Rights	20
Clearings	100
Sundry	10 – 20

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash and units of a money market fund that are valued at the lower of cost or market.

Materials and Supplies

Materials and supplies are valued at the lower of average cost and net realizable value.

Derivative Financial Instruments

BC Hydro uses derivative financial instruments to manage interest rate and foreign exchange risks related to debt, and exposure to electricity and gas market prices.

Derivatives that are designated as hedges are deemed to be effective in offsetting the designated risk and are accounted for on a basis consistent with the underlying financial exposure. Payments and receipts under interest rate and cross-currency swap contracts are recognized as adjustments to finance charges. Gains and losses on terminated interest rate and cross-currency swaps, options and forward rate agreements that are accounted for as hedges are deferred and amortized on a straight-line basis over the original remaining term of the related contract.

If a derivative is not designated as a hedge or, if a derivative is no longer designated as a hedge or the hedging relationship is terminated, then the derivative is recorded at fair value from the date the hedging relationship ceases. The change in fair value is recorded as an adjustment of finance charges.

For energy trading activities and certain liability management derivatives that are not accounted for as hedges, mark-to-market accounting is applied. For energy trading, open trade positions that are derivative commodity instruments are recorded at fair value and recorded as assets or liabilities in the balance sheet. The changes in fair value of open positions, primarily resulting from changes in market prices subsequent to the transaction date, are recognized as gains or losses in the period of change. For energy trading activities, the gains or losses are included in trade revenues. For liability management activities, the related gains or losses are included in finance charges.

Fair Value

The fair value of financial instruments and energy trading positions reflect changes in the level of commodity market prices, interest and foreign exchange rates. Fair value is determined based on exchange or over-the-counter quotations. Where no such information is available, fair value is established through pricing models and reflects the amount that BC Hydro expects it would receive or pay to terminate the position at the date that the value is established.

Fair value amounts reflect management's best estimates considering various factors including closing exchange or over-the-counter quotations, estimates of future prices and foreign exchange rates, time value and volatility. The assumptions used in establishing fair value amounts could differ from actual prices and the impact of such variations could be material.

Sinking Funds

Sinking funds are held as individual portfolios or units in a pooled bond fund. Securities included in an individual portfolio are recorded at cost, adjusted by amortization of any discounts or premiums arising on purchase, on a yield basis over the estimated term to settlement of the security. Realized gains and losses are included in sinking fund income. Unrealized gains and losses are not recognized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Revenue

Deferred revenue consists principally of amounts received under the Skagit River Agreements. Under these agreements, BC Hydro is required to deliver a predetermined amount of electricity each year for an 80-year period ending in fiscal 2066. In return BC Hydro receives approximately US$22 million each year for a 35-year period ending in fiscal 2021 and US$100,000 (adjusted for inflation) each year for an 80-year period ending in fiscal 2066.

The amounts received under the Skagit River Agreements are deferred and included in income on an annuity basis over the electricity delivery period ending in fiscal 2066.

Deferred Contributions

Contributions in aid of construction are amounts paid by certain customers toward the cost of property, plant and equipment required for the extension of services. These amounts are amortized over the expected useful life of the related assets.

Contributions arising from the Columbia River Treaty relate to three dams built by BC Hydro in the mid-1960s to regulate the flow of the Columbia River. The contributions were made to assist in financing the construction of the dams. These proceeds were deferred and are amortized to income over the period ending in fiscal 2025, the minimum term of the treaty.

Asset Retirement Obligations

Asset retirement obligations are legal obligations associated with the retirement of long-lived assets. A liability is recorded at the present value of the estimated future costs when a reasonable estimate of the fair value can be made. When a liability is initially recorded, BC Hydro capitalizes the costs by increasing the carrying value of the long-lived asset. The liability is adjusted for the passage of time through accretion (interest) expense and the capitalized cost is amortized over the useful life of the associated asset. Actual costs incurred upon settlement of an asset retirement obligation are charged against the related liability to the extent of the accrued balance. Any difference between the actual costs incurred upon settlement of the asset retirement obligation and the recorded liability is recognized as a gain or loss in earnings at that time.

Defined Benefit Plans

The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the return on plan assets the assets are valued at fair value. The obligations are discounted using a market interest rate at the end of the year on high-quality corporate debt instruments that match the timing and amount of expected benefit payments.

Transitional obligations and assets and past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active members at the date of amendment.

The excess of the net cumulative unamortized actuarial gain or loss over 10 per cent of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the employee benefit plans is 11 years (2006 – 11 years). When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Environmental Expenditures and Liabilities

BC Hydro conducts its operations in a manner that enables it to meet existing statutory requirements of environmental legislation or standards. The objective is to minimize the impact on the quality of the natural and social environment, providing enhancements wherever practical.

Environmental expenditures are expensed as part of operating activities, unless they constitute an asset improvement or act to mitigate or prevent possible future contamination, in which case the expenditures are capitalized and amortized to income. Environmental liabilities are accrued when environmental expenditures related to activities of BC Hydro are considered likely and the costs can be reasonably estimated. Estimated liabilities are reviewed periodically and these reviews can result in adjustments to previously recorded items.

Taxes

BC Hydro pays local government taxes and grants in lieu to municipalities and regional districts. As a Crown corporation, BC Hydro is exempt from Canadian federal and provincial income taxes.

Comparative Figures

Certain amounts in the prior year's statements have been reclassified to conform to the current year's presentation.

NOTE 2: REGULATION

Rate Regulation

On November 10, 2006, the Commission approved the Negotiated Settlement Agreement (NSA) filed with respect to the F2007/2008 Revenue Requirements Application. The Commission approved rate increases of 1.54 per cent for July 1, 2006 to January 31, 2007 and a further 2.10 per cent effective February 1, 2007, for a combined increase of 3.64 per cent, based on an allowed rate of return of 13.10 per cent.

Included in the February 1, 2007 rate increase is a rate rider of two per cent for the purpose of recovering a portion of the current balances in the Heritage Deferral Account (HDA), Non Heritage Deferral Account (NHDA), Trade Income Deferral Account (TIDA) and BCTC Deferral Account (BCTC DA). The amortization of these accounts will be based on a percentage of the rate rider derived from their balance relative to the total for the group. The rate rider has an indefinite term. Recovery of deferral accounts as approved by the Commission in the NSA and from the rate rider in fiscal 2007 was $50 million.

As part of the NSA, the following regulatory accounts were approved:

- Large Hydro Investigation Costs
- Contributions in Aid (CIA) Amortization Variance
- Depreciation Study Adjustments

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 2: REGULATION (continued)

Regulatory Accounts

The following regulatory assets and liabilities have been established through rate regulation. For the year ended March 31, 2007, the impact of regulatory accounting has resulted in an increase to net income of $28 million (2006 – $241 million).

(in millions)	2006	Additions/Reductions	Amortization	Net change	2007
Regulatory Assets					
Heritage Deferral Account	$ 241	$ (9)	$ (54)	$ (63)	$ 178
Non-Heritage Deferral Account	205	49	(45)	4	209
BCTC Deferral Account	25	(13)	1	(12)	13
Demand-Side Management Programs	269	46	(33)	13	282
First Nation Negotiation, Litigation and Settlement Costs Account	119	11	(4)	7	126
Other Regulatory Accounts	2	73	(21)	52	54
Total Regulatory Assets	$ 861	$ 157	$ (156)	$ 1	862
Regulatory Liabilities					
Future Removal and Site Restoration Costs	$ 226	$ –	$ (16)	$ (16)	$ 210
Trade Income Deferral Account	214	36	(47)	(11)	203
Total Regulatory Liabilities	$ 440	$ 36	$ (63)	$ (27)	$ 413
Net	$ 421	$ 121	$ (93)	$ 28	$ 449

Heritage Deferral Account

Under a Special Directive issued by the Province, the Commission was directed to authorize BC Hydro to establish the HDA. This account is intended to mitigate the impact of certain variances between the forecasted costs in the revenue requirements application and actual costs of service associated with the Heritage Resources by adjustment of net income. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $63 million increase in net income (2006 – $103 million decrease).

Non-Heritage Deferral Account

Under a Special Directive issued by the Province, the Commission approved the establishment of the NHDA, which is intended to mitigate the impact of certain cost variances between the forecasted costs in the revenue requirements application and actual costs related to energy acquisition and maintenance of BC Hydro's distribution assets by adjustment of net income. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $4 million decrease in net income (2006 – $74 million).

BCTC Deferral Account

Under a Special Directive issued by the Province, variances that arise between the costs of transmission services included in BC Hydro's rates and BCTC's rates are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $12 million increase in net income (2006 – $25 million decrease).

During fiscal 2007, BC Hydro recorded a $24 million refund from BCTC for point-to-point services received in cost of energy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 2: REGULATION (continued)

Demand-Side Management Programs

Established under a regulatory order from the Commission, demand-side management programs are designed to reduce the energy requirements on BC Hydro's system. Costs of the programs include materials, direct labour and applicable portions of administration charges, equipment costs, and incentives. Amounts are deferred and amortized on a straight-line basis over the anticipated period of benefit of the program, generally not in excess of 10 years.

In the absence of rate regulation, GAAP would require period costs to be included in operating results in the year in which they are incurred. Costs relating to identifiable tangible assets that meet the capitalization criteria would be recorded as property, plant and equipment. In 2007, $46 million of period costs were incurred and amortization of previously capitalized amounts totaled $33 million (2006 – $90 million and $28 million, respectively). Consequently, net income would have been $13 million lower than would have been recorded in the absence of rate regulation (2006 – $62 million).

First Nation Negotiations, Litigation and Settlement Costs

Established under a regulatory order, provisions for and costs incurred with respect to First Nation negotiations, litigation and settlements are deferred and amortized on a straight-line basis over a period of 10 years.

In the absence of rate regulation, GAAP would require period costs to be included in operating results in the year in which they are incurred. Costs relating to identifiable tangible assets that meet the capitalization criteria would be recorded as property, plant and equipment. In 2007, $11 million (2006 – $96 million) of period costs were recorded as regulatory assets, and the amortization of previously capitalized amounts totaled $4 million (2006 – $4 million). Consequently, net income would have been $7 million lower than would have been recorded in the absence of rate regulation (2006 – $92 million).

Other Regulatory Accounts

Included in other regulatory accounts are the following regulatory assets and liabilities: Foreign Exchange Gains and Losses Arising from the Translation of Specified Foreign Currency Financial Instruments, Large Hydro Investigation Costs, Depreciation Study Adjustments; CIA Amortization Variance, and Major Storm Restoration Costs. All of these accounts have been approved by the Commission through regulatory order, except for the Major Storm Restoration Costs account which BC Hydro is applying to the Commission for approval. Recoverability of the storm restoration costs is subject to approval of the Commission.

In 2007, $52 million of costs deferred to these accounts would have decreased net income in the absence of rate regulation (2006 – $4 million).

Future Removal and Site Restoration Costs

As part of its October 2004 decision, the Commission ordered the establishment of a regulatory provision for future removal and site restoration costs. This account was established in 2006 by a one-time transfer of $251 million from retained earnings. The costs of dismantling and disposal of property, plant and equipment will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation.

This liability has been recognized solely as a result of rate regulation as costs for future removal and site restoration have been established in excess of amounts required as asset retirement obligations. In the absence of rate regulation, it would be anticipated that a liability would not be recognized. The amortization of previously capitalized amounts totaled $16 million in the current year (2006 - $11 million). Consequently, net income would be $16 million lower than would have been recorded in the absence of rate regulation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 2: REGULATION (continued)

Trade Income Deferral Account

Established under a Special Directive issued by the Province, this account is intended to mitigate the uncertainty associated with forecasting the net income of BC Hydro's trade activities. The impact is to defer the difference between the Trade Income forecast in the revenue requirements application and actual Trade Income. For the purposes of this calculation, Trade Income is defined as the net income of Powerex based on Canadian GAAP. The difference between the Trade Income forecast and actual Trade Income is deferred except for amounts arising from a net loss in Trade Income or the portion of Trade Income in excess of $200 million.

In the absence of rate regulation, GAAP would require the inclusion of actual Trade Income to be reflected in operating results, regardless of the variance between forecast and actual amounts, which would have resulted in a $11 million decrease in net income (2006 – $99 million increase).

For certain of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the Commission and operating results experienced during the year.

Payment to the Province

Under a Special Directive from the Province, BC Hydro is required to make an annual Payment to the Province (the Payment) on or before June 30 of each year. The Payment is equal to 85 per cent of BC Hydro's distributable surplus for the most recently completed fiscal year assuming that the debt to equity ratio, as defined by the Province, after deducting the Payment, is not greater than 80:20. If the Payment would result in a debt to equity ratio exceeding 80:20, then the Payment will be based on the greatest amount that can be paid without causing the debt to equity ratio to exceed 80:20.

NOTE 3: AMORTIZATION

(in millions)	2007	2006
Amortization of property, plant and equipment in service	$ 354	$ 372
Amortization of intangible assets	37	34
Amortization of deferred contributions	(29)	(44)
Property, plant and equipment written-off	7	49
Dismantling costs	16	11
Salvage proceeds	(2)	(11)
	$ 383	$ 411

During the year ended March 31, 2006, BC Hydro recorded a write-down of thermal generation assets to reflect a reduction in their future use. The write-down, totalling $23 million, is included in property, plant and equipment written-off.

NOTE 4: FINANCE CHARGES

(in millions)	2007	2006
Interest on long-term debt	$ 515	$ 493
Sinking fund income	(39)	(54)
Other	1	6
	477	445
Less: Assigned to unfinished construction	(24)	(10)
	$ 453	$ 435

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

(in millions)	2007				2006			
	Property, Plant and Equipment in Service	Accumulated Amortization	Unfinished Construction	Net Book Value	Property, Plant and Equipment in Service	Accumulated Amortization	Unfinished Construction	Net Book Value
Generation								
Hydraulic	$ 5,555	$ 1,885	$ 199	$ 3,869	$ 5,443	$ 1,749	$ 102	$ 3,796
Thermal	457	272	6	191	454	257	5	202
	6,012	2,157	205	4,060	5,897	2,006	107	3,998
Lines	6,685	2,674	261	4,272	6,459	2,687	261	4,033
Substations	2,421	1,206	47	1,262	2,256	1,147	71	1,180
Other								
Land and buildings	390	182	9	217	391	179	1	213
Equipment	224	153	7	78	305	228	3	80
Computer hardware	64	34	1	31	69	53	17	33
Service vehicles	108	56	9	61	102	60	5	47
Sundry	28	15	4	17	32	15	9	26
	814	440	30	404	899	535	35	399
Total	$15,932	$ 6,477	$ 543	$ 9,998	$ 15,511	$ 6,375	$ 474	$ 9,610

NOTE 6: INTANGIBLE ASSETS

(in millions)	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Subject to Amortization						
Software	$ 359	$ 206	$ 153	$ 315	$ 165	$ 150
Clearing	177	56	121	174	55	119
Sundry	37	9	28	37	6	31
	573	271	302	526	226	300
Not Subject to Amortization						
Land Rights	122	–	122	113	–	113
Total	$ 695	$ 271	$ 424	$ 639	$ 226	$ 413

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 7: SINKING FUNDS

Sinking funds are held by the Trustee (the Minister of Finance for the Province) for the redemption of long-term debt. The sinking fund balances at the balance sheet date include the following investments:

(dollar amounts in millions)	2007		2006	
	Carrying Value	Weighted Average Effective Rate[1]	Carrying Value	Weighted Average Effective Rate[1]
Money market funds[2]	$ 60	4.3 %	$ 48	3.7 %
Province and BC Crown Corporation bonds	324	4.6 %	331	4.8 %
Federal and other provincial government securities	349	4.7	467	4.8 %
	$ 733		$ 846	

[1] *Rate calculated on market yield to maturity.*

[2] *Money market funds consist of federal and provincial government paper and high-grade commercial paper with a maturity of one year or less.*

Effective December 12, 2005, all sinking fund payment requirements on all new and outstanding debt have been removed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 8: LONG-TERM DEBT AND DEBT MANAGEMENT

BC Hydro's long-term debt comprises bonds and debentures and revolving borrowings obtained under an agreement with the Province.

Under the *Hydro and Power Authority Act*, BC Hydro is subject to a borrowing limit of $8,800 million after deduction of sinking funds. As at March 31, 2007, BC Hydro's total debt under the borrowing limit was $6,924 million (2006 – $6,650 million). The authorized commercial paper borrowing program, which includes revolving borrowings, is limited to $1,400 million under the Fiscal Agency Agreement between BC Hydro and the Province. At March 31, 2007, the outstanding amount under the borrowing limit was $1,073 million (2006 – $880 million).
During fiscal 2007, BC Hydro issued bonds totalling $300 million (2006 – $400 million) with a weighted average effective interest rate of 5.0 per cent (2006 – 4.8 per cent) and a weighted average term to maturity of 22.9 years (2006 – 25.8 years).

Long-term debt, expressed in Canadian dollars, is summarized in the following table by year of maturity:

(dollar amounts in millions)	2007				2006			
	Canadian	Foreign	Total	Weighted Average Interest Rate [1]	Canadian	Foreign	Total	Weighted Average Interest Rate [1]
Maturing in fiscal:								
2007	$ –	$ –	$ –	–	$ 314	$ 210	$ 524	5.3 %
2008	9	577	586	5.9	9	584	593	5.5
2009	94	–	94	10.1	94	–	94	10.0
2010	574	58	632	6.5	574	58	632	6.5
2011	150	–	150	6.5	150	–	150	6.5
2012	450	–	450	6.1	–	–	–	–
Total								
1 – 5 years	1,277	635	1,912	6.4	1,141	852	1,993	6.1
6 – 10 years	975	231	1,206	6.1	1,425	233	1,658	6.1
11 – 15 years	1,271	–	1,271	9.0	975	–	975	8.7
16 – 20 years	410	576	986	7.6	706	584	1,290	8.3
21 – 25 years	1,100	–	1,100	5.4	–	–	–	–
26 – 30 years	–	346	346	7.4	800	–	800	5.5
Over 30 years	–	–	–	–	–	350	350	7.4
Bonds and debentures	5,033	1,788	6,821	6.9	5,047	2,019	7,066	6.8
Revolving borrowings	826	10	836	4.2	412	18	430	3.8
	$ 5,859	$ 1,798	7,657		$ 5,459	$ 2,037	7,496	
Less: Current portion			1,422				954	
Long-term debt			$ 6,235				$ 6,542	

[1] *The weighted average interest rate represents the effective rate of interest on fixed-rate bonds and the current interest rate in effect at March 31 for floating-rate bonds, all before considering the effect of derivative financial instruments.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 8: LONG-TERM DEBT AND DEBT MANAGEMENT (continued)

The following interest rate contracts were in place at March 31, 2007 and 2006 at a nil carrying value. Floating rates are based on the effective rates at the balance sheet date and vary over time.

(dollar amounts in millions)	2007	2006
Receive fixed, pay floating rate swaps		
Notional amount [1]	$ 1,592	$ 1,792
Weighted average receive rate	4.42%	4.57%
Weighted average pay rate	4.54%	3.93%
Weighted terms	5 years	6 years
Receive floating, pay fixed rate swaps		
Notional amount [1]	$ 540	$ 290
Weighted average receive rate	4.44%	3.94%
Weighted average pay rate	4.81%	4.90%
Weighted terms	3 years	7 years
Receive floating, pay floating rate swaps		
Notional amount [1]	$ 175	$ 175
Average receive rate	5.38%	4.95%
Average pay rate	5.30%	4.58%
Remaining term	1 year	1 year

[1] *Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.*

The net carrying value of foreign exchange forward contracts in place at March 31, 2007 was $nil (2006 – ($5) million).

The following foreign currency contracts with a net carrying value of ($165) million (2006 – ($152) million) were in place at March 31, 2007 and 2006. Such contracts are used to hedge foreign dollar principal and interest payments.

(dollar amounts in millions)	2007	2006
Cross-Currency Swaps		
BC Hydro receives foreign currency:		
United States dollar – notional amount [1]	US $1,249	US $1,334
United States dollar – weighted average exchange rate	1.29	1.29
Remaining term	12 years	12 years

[1] *Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.*

Total long-term debt, sinking funds and foreign currency contracts are stated in the following table showing the Canadian dollar equivalent of the currency in which they are payable.

(in millions)	2007						2006
		In Canadian Dollars					
	In Currency Units	At the closing exchange rates at the balance sheet date (C$)	Foreign Currency Contracts	Sinking Funds	Net Principal Outstanding Before Hedging	Net Principal Outstanding After Hedging	Net Principal Outstanding After Hedging
Canadian	$ 5,859	$ 5,859	$ –	$ (509)	$ 5,350	$ 6,791	$ 6,439
US	1,560	1,798	165	(224)	1,739	298	363
		$ 7,657	$ 165	$ (733)	$ 7,089	$ 7,089	$ 6,802

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 9: FINANCIAL INSTRUMENTS

Fair Value

At March 31, 2007 and 2006, BC Hydro's financial instruments included cash and cash equivalents, accounts receivable, sinking funds, accounts payable, long-term debt and interest rate, foreign exchange and commodity derivative financial instruments. Some of these derivative financial instruments are held with the Province, which enters into such agreements with third parties on BC Hydro's behalf.

BC Hydro's financial instruments not shown in the following table have fair values that approximate carrying amounts (bracketed amounts represent liabilities):

(in millions)	2007		2006	
	Carrying Value[1]	Fair Value[2]	Carrying Value[1]	Fair Value[2]
Bonds and debentures	$ (6,821)	$ (8,075)	$ (7,066)	$ (8,294)
Revolving borrowings[3]	(836)	(836)	(430)	(430)
Long-term debt before current portion	$ (7,657)	$ (8,911)	$ (7,496)	$ (8,724)
Sinking funds	$ 733	$ 740	$ 846	$ 844
Derivative financial instruments				
Net foreign currency contracts	$ (165)	$ (153)	$ (152)	$ (147)
Interest rate swaps	–	(7)	–	(12)
Foreign exchange forward contracts	–	1	(5)	(5)
Commodity derivatives	17	1	(20)	(41)

[1] *Carrying value represents the amount which is recorded in BC Hydro's financial statements.*

[2] *Market rates and prices used in determining fair value are as of the balance sheet date.*

[3] *As the interest rates on revolving borrowings are reset on a regular basis, fair value approximates carrying value.*

Credit Risk Management

BC Hydro is directly exposed to counterparty credit risk as a result of the sale of electricity and related services to its domestic customers and purchase of electricity from independent power producers. BC Hydro is also exposed to credit risk as a result of the trade activities of Powerex. Powerex's principal counterparties are utilities, energy marketers, independent power producers, industrials, power pools, and municipalities in the western United States, western Canada, as well as parts of the eastern United States and eastern Canada. With respect to Powerex's sales and purchases, credit risk is managed by authorizing transactions with only credit-worthy counterparties within the guidelines of the Company's risk management policies, and by monitoring the credit risk and credit standing of counterparties on a regular basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 10: DEFERRED CONTRIBUTIONS

(in millions)	2007	2006
Contributions in aid of construction	$ 747	$ 681
Contributions arising from the Columbia River Treaty	166	175
	$ 913	$ 856

NOTE 11: OTHER LONG-TERM LIABILITIES

(in millions)	2007	2006
Environmental liabilities	$ 19	$ 33
Pension and other benefit plan liabilities	4	89
Contingent liabilities	88	88
Deferred revenue	332	313
Asset retirement obligations	16	15
	$ 459	$ 538

For asset retirement obligations, BC Hydro estimates the undiscounted amount of cash flows required to settle the asset retirement obligation is approximately $22 million, which will be incurred between 2009 and 2018. A discount rate of 5.9 per cent was used to calculate the carrying value of the asset retirement obligations.

NOTE 12: EMPLOYEE FUTURE BENEFIT PLANS

BC Hydro provides a defined benefit statutory pension plan to substantially all employees, as well as supplemental arrangements which provide pension benefits in excess of statutory limits. Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Annual cost-of-living increases are provided to pensioners to the extent that funds are available in the indexing fund. Employees make basic and indexing contributions to the plan funds based on a percentage of current pensionable earnings. BC Hydro contributes amounts as prescribed by an independent actuary. BC Hydro is responsible for ensuring that the statutory pension plan has sufficient assets to pay the pension benefits upon retirement of employees. The supplemental arrangements are unfunded. The most recent actuarial funding valuation for the statutory pension plan was performed at December 31, 2003. A more recent valuation for funding purposes occured on December 31, 2006.

BC Hydro also provides post-retirement benefits other than pensions including medical, extended health and life insurance coverage for retirees who have at least 10 years of service and qualify to receive pension benefits. Certain benefits, including the short-term continuation of health care and life insurance, are provided to terminated employees or to survivors on the death of an employee. These other post-retirement benefits and post-employment benefits are not funded. Post-employment benefits include the pay-out of benefits that vest or accumulate, such as banked vacation.

Information about the benefit plans, post-retirement benefits and post-employment benefits other than pensions is as follows:

(a) The net expense for BC Hydro's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	2007	2006	2007	2006
Net expense	$ 25	$ 34	$ 44	$ 40

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 12: EMPLOYEE FUTURE BENEFIT PLANS (continued)

In fiscal 2004, the transfer of approximately 260 employees to BCTC resulted in the curtailment of an insignificant portion of the BC Hydro defined benefit pension plan and other post-retirement benefit plans. The curtailment and related settlement of a portion of the plans was accounted for in fiscal 2006.

(b) Information about BC Hydro's benefit plans as at March 31, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	2007	2006	2007	2006
Accrued benefit obligation	$ 2,535	$ 2,396	$ 335	$ 332
Fair value of plan assets	2,500	2,142	–	–
Plan deficit	$ (35)	$ (254)	$ (335)	$ (332)
Unamortized net actuarial losses	269	380	134	159
Unamortized past service costs	7	8	–	–
Unamortized transition (asset) liability	(75)	(89)	33	40
Accrued benefit asset (liability)	$ 166	$ 45	$ (168)	$ (133)

The pension plan assets and obligations are measured as at December 31, 2006. The other benefit plan obligations are measured as at March 31, 2007. No valuation allowance was required in fiscal 2007 and fiscal 2006. None of the above benefit plans were fully funded in fiscal 2006. Only the statutory pension plan was fully funded in fiscal 2007.

(c) The significant assumptions adopted in measuring BC Hydro's accrued benefit obligations are as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2007	2006	2007	2006
Discount rate				
– benefit cost	5.5%	6.0%	5.5%	6.0%
– accrued benefit obligation	5.5%	5.5%	5.5%	5.5%
Expected long-term rate of return on plan assets	7.2%	7.0%	n/a	n/a
Rate of compensation increase				
– benefit cost	3.8%	3.5%	n/a	n/a
– accrued benefit obligation	3.8%	3.5%	n/a	n/a
Health care cost trend rate:				
– Weighted average health care cost trend rate	n/a	n/a	7.5%	7.5%
– Weighted average ultimate health care cost trend rate	n/a	n/a	4.2%	4.2%
– Year in which ultimate health care cost trend rate will be achieved	n/a	n/a	2012	2011

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 12: EMPLOYEE FUTURE BENEFIT PLANS (continued)

(d) Other information about BC Hydro's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	2007	2006	2007	2006
Employer contributions	$ 143	$ 34	$ –	$ –
Employee contributions	15	15	–	–
Benefits paid	116	109	10	10
Settlement payments	9	82	–	–

The actuarial valuation as at December 31, 2003 that was completed in June 2005, revealed a specific funding requirement of approximately $166 million. BC Hydro is required to make these payments with interest over a five year period ending December 31, 2008. These amounts represent funding commitments to fulfill certain requirements specified by the BC Pension Benefits Standards Act related to the unlikely event that BC Hydro ceases to operate, and are designated as contributions to the BC Hydro pension plan. Amounts contributed are in addition to existing funding commitments and do not materially impact operating results in the period in which the payments are made.

BC Hydro subsequently applied for and received an extension to October 2006 from the Financial Institutions Commission of BC ("FICOM") for making the funding payment due in July 2005 and thereafter to allow time to pursue an alternative to the required funding. In October 2006, FICOM was of the opinion that no decision on the proposed use of letters of credit as a mechanism for funding solvency deficiencies in pension plans was likely to be forthcoming in the near term and denied any further extensions. In November 2006, BC Hydro made a $102.2 million contribution to the plan representing all required solvency payments and accrued interest for the period from January 1, 2004 to September 30, 2006. Subsequently, an additional required quarterly solvency payment of $9.1 million was made during the fiscal year.

(e) Asset allocation of the defined benefit statutory pension plan as at the measurement date:

	Target Allocation	2007	2006
Equities	60%	61%	60%
Fixed income investments	30%	28%	30%
Real estate	10%	11%	10%

Plan assets are re-balanced within ranges around target applications. The expected return on plan assets is determined by considering long-term historical returns, future estimates of long-term investment returns and asset allocations.

NOTE 13: COMMITMENTS AND CONTINGENCIES

Energy Commitments

BC Hydro (excluding Powerex) has long-term energy purchase contracts to meet a portion of its expected future domestic electricity requirements. The minimum obligations to purchase energy under these contracts have a total value of approximately $22,760 million of which approximately $2,416 million relates to the purchase of natural gas and natural gas transportation contracts, at market prices over 30 years. The remaining commitments are at predetermined prices. Powerex has energy purchase commitments with a minimum payment obligation of $5,506 million extending to 2025 and purchase commitments for energy and capacity services with a value of $137 million extending to 2013.

The total combined payments for the next five years are approximately (in millions): 2008 – $1,711; 2009 – $998; 2010 – $995; 2011 – $1,168; 2012 – $1,270.

Powerex has energy sales commitments over the next five years with a total value of $1,786 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 13: COMMITMENTS AND CONTINGENCIES (continued)

Lease and Service Agreements

BC Hydro has entered into various agreements to lease facilities or assets, or to purchase business support services. The agreements cover periods of up to 10 years, and the aggregate minimum payments are approximately $692 million. Payments for the next five years are approximately (in millions): 2008 – $141; 2009 – $138; 2010 – $137; 2011 – $136; 2012 – $133.

Capital Expenditure Commitments

During fiscal 2007 BC Hydro entered into a contract for $123 million relating to the Vancouver Island Transmission Reinforcement (VITR) project to install a new submarine cable to Vancouver Island. The payments for this project are approximately $21 million in 2008 and another $102 million in 2009.

Legal Contingencies

(a) California Power Markets: Since 2000, Powerex has been named, in some cases along with other energy providers, as a defendant in a number of lawsuits and U.S. federal regulatory proceedings which seek damages and/or contract rescission based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and that the energy prices were not just and reasonable. These proceedings are at various stages. A number of issues and findings are presently on appeal and none have been the subject of final judicial action. The U.S. Court of Appeals for the Ninth Circuit, in its Lockyer decision of July 31, 2006, told the U.S. Federal Energy Regulatory Commission (FERC) that it should reconsider its remedial powers thereby opening up the possibility that refunds will have to be paid for the periods from May to October 2000. On August 2, 2006, the Ninth Circuit ruled on certain issues in the FERC refund proceedings. One of those related to whether refunds should be paid for bilateral sales (those that did not go through the CISO). In its decision, the Ninth Circuit upheld FERC's decision that refunds should not be paid for bilateral sales but also said that FERC was wrong to conclude that it did not have power to award refunds retroactively. The precise effect of these decisions on Powerex cannot be determined at this time.

At March 31, 2007, Powerex was owed US $268 million (CDN $309 million) by the markets operated by the California Power Exchange (Cal Px) and the California Independent System Operation (CISO) related to Powerex's electricity trade activities in California during fiscal 2001. As a result of payment defaults by a number of California utilities, the Cal Px and CISO were unable to pay these amounts to Powerex. That receivable will be offset against any refunds that Powerex is required to pay.

On March 26, 2004, FERC approved a settlement agreement between FERC staff and Powerex that acknowledged that there was no evidence that Powerex engaged in any gaming practices or concerted partnership practices with any other market participants, and further noted that Powerex was a valuable and reliable supplier of energy and ancillary services to the California market throughout the energy crisis. This settlement is still subject to rehearing at FERC, has not been the subject of a final FERC order and FERC's final order when issued may subsequently be appealed to the courts.

BC Hydro was also joined as a defendant in the California Consumer Class Action lawsuit through cross-claims by other defendants. In response to an application by BC Hydro to be dismissed from the lawsuit, a US Federal District Court judge ruled that BC Hydro is immune from these claims in the United States by virtue of the Foreign Sovereign Immunities Act. The Ninth Circuit upheld this finding. The court also upheld the District Court's finding that Powerex does not enjoy foreign sovereign entity status and therefore remains a party to the lawsuit, which was ordered to be remanded back to California State Court. Powerex requested its appeal to be heard by the Supreme Court of the United States. The Supreme Court heard the case on April 16, 2007 and a decision from them is pending.

Due to the ongoing nature and uncertain status of the regulatory and legal proceedings related to the California power markets, management cannot predict at this time the outcome of the claims against Powerex. Powerex has recorded provisions for uncollectible amounts and legal costs associated with the ongoing legal and regulatory impacts of the California energy crisis during fiscal 2001. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that may ultimately be collected or paid may differ from management's current estimates. Management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the process.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 13: COMMITMENTS AND CONTINGENCIES (continued)

(b) Facilities and Right of Ways: BC Hydro is subject to existing and pending legal claims relating to alleged infringement and damages in the operation and use of facilities owned by BC Hydro. These claims may be resolved unfavourably with respect to BC Hydro and may have a significant adverse effect on BC Hydro's financial position. For existing claims in respect of which settlement negotiations have advanced to the extent that potential settlement amounts can reasonably be predicted, management has recorded a provision for the potential costs of those settlements. For pending claims, management believes that any loss exposure that may ultimately be incurred may differ materially from management's current estimates. Management has not disclosed the ranges of expected outcomes due to the potentially adverse effect on the negotiation process for these pending claims.

(c) Due to the size, complexity and nature of BC Hydro's operations, various other legal matters are pending. It is not possible at this time to predict with any certainty the outcome of such litigation. Management believes that any settlements related to these matters will not have a material effect on BC Hydro's consolidated financial position or results of operations.

NOTE 14: GEOGRAPHIC INFORMATION

Revenues, based on point of delivery, are as follows:

(in millions)	2007	2005
British Columbia	$ 2,791	$ 2,728
Canada (excluding British Columbia)	511	486
United States	895	1,097
	$ 4,197	$ 4,311

Substantially all of BC Hydro's assets are located in the Province of British Columbia.

NOTE 15: BRITISH COLUMBIA TRANSMISSION CORPORATION

Effective April 1, 2005 BC Hydro removed BCTC from its consolidated accounts when BCTC was considered operationally and financially independent of BC Hydro, resulting in a $24 million adjustment to opening retained earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 16: RELATED PARTY TRANSACTIONS

As Crown corporations of the Province, BC Hydro, BCTC and the Province are considered related parties. As a regulatory agency of the Province, the Commission would also be considered a related party of BC Hydro as both organizations are subject to common significant influence by the Province. All transactions between BC Hydro and its related parties are considered to possess commercial substance and are consequently recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The related party transactions are summarized below:

(in millions)	2007	2006
Province of B.C.		
Accounts receivable	$ 76	$ 73
Accounts payable	368	257
Water rental fees	259	272
Cost of energy sales	223	320
Taxes	98	99
Finance charges	453	435
Payment to the Province	331	223
BCTC		
Accounts receivable	$ 62	$ 13
Accounts payable	45	34
Cost of energy	60	72
Operating costs	87	90
Other	30	33

BC Hydro's debt is either held or guaranteed by the Province (see Note 8). Under an agreement with the Province, BC Hydro indemnifies the Province for any credit losses incurred by the Province related to interest rate and foreign currency contracts entered into by the Province on BC Hydro's behalf. At March 31, 2007, the aggregate exposure under this indemnity totaled approximately $177 million (2006 – $175 million). BC Hydro has not experienced any losses to date under this indemnity.

FINANCIAL STATISTICS

for the years ended or as at March 31 *(in millions)*	2007 [1]	2006 [1]	2005 [1]	2004	2003
Revenues	$ 4,197	$ 4,311	$ 3,725	$ 3,424	$ 3,107
Expenses					
Energy costs	2,117	2,488	1,959	1,580	1,126
Operating costs [2]	716	805	717	621	573
Amortization	383	411	410	526	417
Taxes	149	147	143	147	145
Finance charges	453	435	318	452	457
Payment from Alcan Inc.	–	–	(137)	–	–
Restructuring costs	–	–	–	8	37
	3,818	4,286	3,410	3,334	2,755
Income Before Regulatory Account Transfers	379	25	315	90	352
Regulatory Transfers	28	241	87	–	–
Rate Stabilization Account	–	–	–	21	66
Net Income	$ 407	$ 266	$ 402	$ 111	$ 418
Property, Plant and Equipment and Intangible Assets					
At cost	$ 17,233	$ 16,699	$ 16,197	$ 15,841	$ 15,609
Less: Accumulated depreciation	6,811	6,676	6,264	5,941	5,816
Net Book Value	$ 10,422	$ 10,023	$ 9,933	$ 9,900	$ 9,793
Property, Plant and Equipment and Intangible Asset Expenditures					
Sustaining	$ 428	$ 363	$ 331	$ 375	$ 367
Expansion	379	247	197	199	329
Total property, plant and equipment and intangible asset expenditures [3]	807	610	528	574	696
Less: Contributions in aid of construction	85	68	66	56	62
Net Property, Plant and Equipment and Intangible Asset Expenditures	$ 722	$ 542	$ 462	$ 518	$ 634
Net Long-Term Debt [4]	$ 6,916	$ 6,627	$ 6,583	$ 6,853	$ 6,849

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[1] *The results reflect the impact of Accounting Guideline 19, Disclosure by Entities Subject to Rate Regulation, regarding the recognition and measurement of assets and liabilites subject to rate regulation. Prior years have not been restated.*

[2] *Maintenance, operations and administrative costs.*

[3] *Total property, plant and equipment and intangible asset expenditures include non-cash items.*

[4] *Consists of long-term debt, including the current portion, net of sinking funds and cash and cash equivalents.*

KEY FINANCIAL AND OPERATING COMPARATIVES

FINANCIAL COMPARATIVES

(dollar amounts in millions unless otherwise stated)	2007 [1]	2006 [1]	2005 [1]	2004	2003
Revenues	$ 4,197	$ 4,311	$ 3,725	$ 3,424	$ 3,107
Net income	$ 407	$ 266	$ 402	$ 111	$ 418
Property, Plant and Equipment and Intangible Assets	$ 10,422	$ 10,023	$ 9,933	$ 9,900	$ 9,793
Net long-term debt [2]	$ 6,916	$ 6,627	$ 6,583	$ 6,853	$ 6,849
Rate Stabilization Account	$ –	$ –	$ –	$ 21	$ 66
Retained earnings	$ 1,783	$ 1,707	$ 1,688	$ 1,876	$ 1,609
Property, Plant and Equipment and Intangible Assets Expenditures	$ 807	$ 610	$ 528	$ 574	$ 694
Debt to equity	70:30	70:30	70:30	70:30	72:28
Return on equity (%)	13.44	9.26	14.24	3.74	15.47
Interest coverage	1.78	1.06	1.56	1.22	1.75

OPERATING COMPARATIVES

(dollar amounts in millions unless otherwise stated)	2007 [1]	2006 [1]	2005	2004	2003
Number of customers	1,736,987	1,704,892	1,675,258	1,650,655	1,629,186
Generating capacity (MW):					
Hydroelectric	10,232	10,219	10,218	10,207	10,009
Thermal	1,091	1,094	1,093	1,093	1,099
Peak one-hour demand (MW)	10,113	9,317	9,437	9,619	8,481
Average annual kWh use per residential customer	10,906	10,846	10,722	10,761	10,476
Average number of customers per employee	373	399	378	372	266
Domestic sales (GWh)	52,911	52,440	51 205	50,151	48,677
Trade sales (GWh)	41,336	36,547	32,346	28,373	31,182
Total electricity sold per employee (GWh)	18.70	19.45	18.41	17.82	13.14

[1] *The results reflect the impact of Accounting Guideline 19, Disclosure by Entities Subject to Rate Regulation, regarding the recognition and measurement of assets and liabilites subject to rate regulation. Prior years have not been restated.*

[2] *Consists of long-term debt, including the current portion, net of sinking funds and cash and cash equivalents.*

OPERATING STATISTICS

for the years ended or as at March 31	2007	2006	2005	2004	2003
Generating Capacity (megawatts)					
Hydroelectric [1]	10,232	10,219	10,218	10,207	10,009
Thermal	1,091	1,094	1,093	1,093	1,099
Total	11,323	11,313	11,311	11,300	11,108
Peak One-Hour Demand Integrated System (megawatts)	10,113	9,317	9,437	9,619	8,481
Customers					
Residential	1,540,176	1,511,435	1,484,339	1,462,079	1,442,597
Light industrial and commercial	193,070	189,764	187,313	185,065	183,188
Large industrial	146	146	138	136	133
Other	3,349	3,326	3,265	3,202	3,092
Trade	246	221	203	173	176
Total	1,736,987	1,704,892	1,675,258	1,650,655	1,629,186
Electricity Sold (gigawatt-hours)					
Residential	16,651	16,261	15,814	15,646	15,024
Light industrial and commercial	18,268	17,913	17,459	17,175	16,757
Large industrial	15,989	16,428	16,177	15,505	15,179
Other	2,003	1,838	1,755	1,825	1,717
Domestic	52,911	52,440	51,205	50,151	48,677
Trade	41,336	36,547	32,346	28,373	31,182
Total	94,247	88,987	83,551	78,524	79,859
Domestic Change Over Previous Year (%)	0.9	2.4	2.1	3.0	1.8
Revenues (in millions)					
Residential	$ 1,070	$ 1,046	$ 1,016	$ 960	$ 923
Light industrial and commercial	1,025	989	967	912	893
Large industrial	556	584	573	525	516
Other energy sales	99	92	88	89	88
Domestic electric	2,750	2,711	2,644	2,486	2,420
Miscellaneous	41	16	60	67	55
Domestic	2,791	2,727	2,704	2,553	2,475
Trade	1,406	1,584	1,021	871	632
Total	$ 4,197	$ 4,311	$ 3,725	$ 3,424	$ 3,107

OPERATING STATISTICS (continued)

for the years ended or as at March 31	2007	2006	2005	2004	2003
Average Revenue (per kilowatt-hour)					
Residential	6.4¢	6.4¢	6.4¢	6.1¢	6.1¢
Light industrial and commercial	5.6	5.5	5.5	5.3	5.3
Large industrial	3.5	3.6	3.5	3.4	3.4
Other	4.9	5.0	5.0	4.9	5.1
Trade [2]	6.9	7.8	9.7	6.8	6.2
Average Annual Kilowatt-Hour Use Per Residential Customer	10,906	10,846	10,722	10,761	10,476
Lines In Service					
Distribution (kilometres) [3]	55,224	55,224	55,254	54,617	55,734
Transmission (circuit kilometres)	18,336	18,234	18,286	18,300	18,284
Number of Employees [4]	4,546	4,203	4,396	4,406	6,013

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[1] *Maximum sustained generating capacity.*

[2] *The method used to calculate the trade revenue per kilowatt hour is based on gross trade revenues.*

[3] *The method used to track the distance of the 3-phase underground power lines was changed in Fiscal 2004.*

[4] *Includes full-time and part-time employees of BC Hydro and its subsidiaries. For the years ended 2003 and 2004 this also includes the employees of British Columbia Transmission Corporation. At April 1, 2003, approximately 1,600 employees were transferred to Accenture Business Services of British Columbia.*

TOTAL REQUIREMENTS FOR ELECTRICITY AND SOURCES OF SUPPLY

for the years ended March 31	2007			2006		2005		2004	
	Generating Capacity (Megawatts)	Gigawatt-Hours	%	Gigawatt-Hours	%	Gigawatt-Hours	%	Gigawatt-Hours	%
Requirements									
Domestic	11,323	52,911	57.8	52,440	59.8	51,205	59.8	50,151	60.1
Electricity trade		33,372	36.4	29,906	34.1	29,706	34.7	28,373	34.0
		86,283	94.2	82,346	93.9	80,911	94.5	78,524	94.1
Line loss and system use		5,329	5.8	5,356	6.1	4,660	5.5	4,969	5.9
		91,612	100.0	87,702	100.0	85,571	100.0	83,493	100.0
Sources Of Supply									
Hydroelectric generation									
Gordon M. Shrum	2,730	12,470	13.6	14,628	16.7	11,738	13.7	14,567	17.4
Revelstoke	1,980	7,740	8.4	7,915	9.0	7,283	8.5	7,552	9.0
Mica	1,805	7,036	7.7	7,006	8.0	5,993	7.0	6,389	7.7
Kootenay Canal	580	3,286	3.6	3,300	3.8	3,339	3.9	2,507	3.0
Peace Canyon	694	3,054	3.3	3,580	4.1	2,981	3.5	3,604	4.3
Seven Mile	805	3,573	3.9	3,082	3.5	3,039	3.6	2,867	3.4
Bridge River	476	2,609	2.8	2,736	3.1	2,597	3.0	2,555	3.1
Other	1,162	4,708	5.1	4,603	5.3	4,631	5.4	4,499	5.4
	10,232	44,476	48.5	46,850	53.4	41,601	48.6	44,540	53.3
Thermal generation									
Burrard	950	727	0.8	39	0.0	456	0.5	136	0.2
Other	141	333	0.4	336	0.4	325	0.4	312	0.4
Purchases under long-term commitments		10,306	11.2	11,275	12.9	10,992	12.9	10,681	12.8
Purchases under short-term commitments		35,360	38.6	29,831	34.0	32,637	38.1	29,042	34.8
Exchange net		410	0.4	(629)	(0.7)	(440)	(0.5)	(1,218)	(1.5)
	11,323	91,612	100.0	87,702	100.0	85,571	100.0	83,493	100.0

Subsidiaries

Powerex Corp.

Powerex Corp., BC Hydro's wholly-owned energy marketing subsidiary, is a leading marketer of wholesale energy products and services in western Canada and the western United States, and a growing niche player in other markets across North America. Powerex customers include utilities, power pools, municipalities, large industrials and energy marketers. Its energy marketing and trade activities help optimize BC Hydro's electric system resources and provides significant economic benefits to the people of British Columbia.

In recent years, Powerex has increasingly been purchasing electricity from outside the BC Hydro system to support BC Hydro's domestic needs and to meet its own trade commitments. These purchases are made from entities in British Columbia, western Canada and the United States. Powerex also markets, on behalf of the Province, the Canadian Entitlement to the Downstream Benefits of the Columbia River Treaty.

Powertech Labs Inc.

Powertech Labs Inc. operates on a commercial basis, providing consulting, analysis, testing and certification services and analytic tools and products to the electric and natural gas industries, their customers and suppliers worldwide. Powertech is a leader in high pressure gas storage and fuelling technology, alternative energy and analytic software for the design and secure operation of integrated electric power systems.

Powertech provides a centre for the innovative use of a wide array of technology including high voltage, high power, high current, mechanical, materials, coatings, chemical and civil technologies. What sets Powertech apart is the ability to combine expertise from different disciplines to provide optimum solutions for complex problems. Powertech is registered for its Environmental (ISO 14001:2004) and Quality (ISO 9001:2000) Management Systems.

Other Subsidiaries

BC Hydro has created a number of other subsidiaries to help us manage risk in developing projects and/or contracting with third parties. The Boards and management of these subsidiaries are made up of BC Hydro employees, who perform these duties without incremental remuneration.

Long Term Goals

BC Hydro has established 15 long-term goals to guide our business over the next 20 years and ensure we continue to provide reliable power, at low cost, for generations.

Long-Term Goal	Explanation
Reliability (Supply)	To provide electricity self-sufficiency (energy and capacity) in B.C. for meeting all domestic needs.
Reliability (Customer)	To have the best-in-class reliability by customer segment.
Customer Satisfaction	To lead other companies in offering extraordinary value and service.
Remote Community Electrification	To provide appropriate electric service to all remote communities on an equitable basis.
Workplace	To be the top employer for generations
Teamwork	To use exceptional teamwork to engage all employees in the achievement of BC Hydro's purpose and long-term goals.
Safety	To provide the safest work environment compared with the best performers in any industry, with none of our employees experiencing a serious safety injury.
First Nations	To improve relationships built on mutual respect and that appropriately reflect the interests of First Nations.
Suppliers	To ensure 100 per cent of suppliers have demonstrated values congruent with those of BC Hydro.
Environmental Impact	To have no net environmental impact by 2025.
Electricity Conservation and Efficiency	To develop and foster a conservation culture in B.C. that leads to customers to choose a dramatic and permanent reduction in electricity intensity.
Financial Targets	To maintain existing position of having costs among the lowest in North America and to deliver 100 per cent forecast net income on an annual basis.
Western Opportunities	To profitably increase Western market share based on access to assets in B.C. and the Western system and increased trading activity.
Innovation and Technology	To be an industry leader in innovation use of technology, directly supporting and advancing BC Hydro's long-term goals.
Stakeholder Engagement	To be the most respected company in B.C.

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Stakeholder Engagement	To be the most respected company in B.C.

Triple-bottom line Reporting and the Global Reporting Initiative:

BC Hydro prepares its Annual Report in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. This voluntary de facto standard is used by over 1,000 organizations worldwide to transparently report on performance across all three dimensions of sustainability - the financial, environmental, and social (customers, employees and community) - of their activities, products, and services. Reporters using the Guidelines present reporting principles and specific content indicators to guide the preparation of organization-level sustainability reports.

Although now an independent body, the GRI remains an official collaborating centre of the United Nations Environment Programme (UNEP) and works in co-operation with United Nations Global Compact. The GRI incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organizations from around the world.

Starting in 2006, BC Hydro has also contributed to a forthcoming GRI Sector Supplement tailored specifically to the global Electric Utility sector. The Supplement will contain commentary on developing indicators based on the GRI list of performance measures, items for inclusion in MD&A sections of the report, and recommended performance measures in addition to those listed in the new G3 GRI Sustainability Reporting Guidelines.

BC Hydro is an Organizational Stakeholder of the Global Reporting Initiative (GRI) and reports "In Accordance" with the 2002 GRI Sustainability Reporting Guidelines Reporting in alignment with the GRI principles and performance measures has historically contributed to BC Hydro being recognized as a leading sustainability reporter (e.g., by Stratos and the UNEP/Sustainability's Global Reporters) and has driven continual improvement.

The chart below correlates our compliance to the respective requirements of the 2002 GRI Guidelines. Next year, BC Hydro plans on reporting to the GRI's newly updated G3 Guidelines. BC Hydro's entire suite of sustainability performance measures is a combination of measures developed to track our achievement of long-term goals from the Service Plan, measures derived from financial and operational statistics, and measures developed specifically to meet GRI reporting requirements.

GRI Requirement	AR Report section
1.1 Statement of the organization's vision and strategy regarding its contribution to sustainable development.	• About Us/Business Overview, pgs. 4 and 9.
1.2 Statement from the CEO (or equivalent senior manager) describing key elements of the report.	• Message from the Chair and President and CEO, pgs. 5-7.
2.1 Name of reporting organization.	• About Us/Business Overview, pg. 9.
2.2 Major products and/or services, including brands if appropriate.	• Business Overview, pg. 8.
2.3 Operational structure of the organization.	• Business Overview, pgs. 9-10.
2.4 Description of major divisions, operating companies, subsidiaries, and joint ventures.	• Business Overview, pg. 10 and Appendix 1: Subsidiaries, pg. 122.
2.5 Countries in which the organization's operations are located.	• Business Overview, pg. 9.
2.6 Nature of ownership; legal form.	• About Us, pg. 8.
2.7 Nature of markets served.	• About Us, pg. 8.
2.8 Scale of the reporting organization.	• About Us, pg. 8.
2.9 List of stakeholders, key attributes of each, and relationship to the reporting organization.	• We have the Stakeholder Section in "Report on Performance", pgs. 52-54.
2.10 Contact person(s) for the report, including e-mail and web addresses.	• Last Page of the report, pg. 132.
2.11 Reporting period (e.g., fiscal/calendar year) for information provided.	• About Us, pg. 4.
2.12 Date of most recent previous report (if any).	• Report on Performance Section - Introduction, pg. 16.
2.13 Boundaries of report (countries/regions, products/services, divisions/facilities/joint ventures / subsidiaries) and any specific limitations on the scope.	• Business Overview, pg. 8+10.
2.14 Significant changes in size, structure, ownership, or products/services that have occurred since the previous report.	• Business Overview, pg. 10.
2.15 Basis for reporting on joint ventures, partially owned subsidiaries, leased facilities, outsourced operations, and other situations that can significantly affect comparability from period to period and/or between reporting organizations.	• Appendix 1 under Subsidiaries, pg. 122 and minor mention in Business Overview, pg. 10.
2.16 Explanation of the nature and effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	• Report on Performance Charts, pg. 16 and in the Financial Statements/MD&A, pg. 80.
2.17 Decisions not to apply GRI principles or protocols in the preparation of the report.	• See GRI Index http://www.bchydro.com/info/reports/reports11858.html
2.18 Criteria/definitions used in any accounting for economic, environmental, and social costs and benefits.	• TBL reporting and In accordance mentioned in "About Us", pg. 4 ,"Report on Performance", pg. 13 and preamble in Appendix 3.
2.19 Significant changes from previous years in the measurement methods applied to key economic, environmental, and social information.	• Report on Performance (intro), pg. 15.

GRI Requirement	AR Report section
2.20 Policies and internal practices to enhance and provide assurance about the accuracy, completeness, and reliability that can be placed on the sustainability report. This includes internal management systems, processes, and audits that management relies on to ensure that reported data are reliable and complete with regard to the scope of the report.	• Statements of Governance/Board section, pg. 68.
2.21 Policy and current practice with regard to providing independent assurance for the full report.	• Minor discussion in MD&A, pg. 80 and also in the Message from the Chair and President and CEO Letter, pg. 5 and Auditor's Statements, pg. 85.
2.22 Means by which report users can obtain additional information and reports about economic, environmental, and social aspects of the organization's activities, including facility-specific information (if available).	• On website and on last page of report.
3.1 Governance structure of the organization, including major committees under the board of directors that are responsible for setting strategy and for over-sight of the organization.	• Statements on Governance, pg. 68.
3.2 Percentage of the board of directors that are independent, non-executive directors.	• Statements on Governance, pg. 68 – where there is discussion on the Board and their roles. • See also LA11(1) BC Hydro Board of Directors.
3.3 Process for determining the expertise board members need to guide the strategic direction of the organization, including issues related to environmental and social risks and opportunities.	• Accountability for Sustainability section at the end of the Board text in the Statements on Governance, pg. 69. • See also LA11(1) BC Hydro Board of Directors.
3.4 Board-level processes for overseeing the organization's identification and management of economic, environmental, and social risks and opportunities.	• Statements on Governance, pg. 68.
3.5 Linkage between executive compensation and achievement of the organization's financial and non-financial goals (e.g., environmental performance, labour practices).	• Published as a separate document – Financial Information Act Return. • http://www.bchydro.com/rx_files/policies/policies48313.pdf.
3.6 Organizational structure and key individuals responsible for oversight, implementation, and audit of economic, environmental, social, and related policies.	" Business Overview", pg. 9, the two letters/statements prior to the Financial Statements, pgs. 77-78, as well in the "Message from the Chair and President and CEO," pg. 5-7.
3.7 Mission and values statements, internally developed codes of conduct or principles, and polices relevant to economic, environmental, and social performance and the status of implementation.	Values and Mission in the Business Overview, pg. 9. Triple Bottom line approach appears at the front of the Environment Section, pg. 57 and in the Accountability for Sustainability section, pg. 69.
3.8 Mechanisms for shareholders to provide recommendations or direction to the board of directors.	BC Hydro is a Crown Corporation, but the government gives us direction as our shareholder and through the Crown Agency Secretariat and the Provincial Minister of Energy, Mines and Petroleum.
3.9 Basis for identification and selection of major stakeholders.	Included in People section under "Stakeholders", pgs. 52-54.
3.10 Approaches to stakeholder consultation reported in terms of frequency of consultations by type and by stakeholder group.	Included in People section under "Stakeholders", pgs. 52-54.

GRI Requirement	AR Report section
3.11 Type of information generated by stakeholder consultations.	Included in People section under "Stakeholders" – comments from two key groups, pgs. 52-54.
3.12 Use of information resulting from stakeholder engagements.	Included in People section under "Stakeholders" – comments from two key groups, pgs. 52-54.
3.13 Explanation of whether and how the precautionary approach or principle is addressed by the organization.	Integrated into "Public Safety", pg. 22 and embedded in "BC Hydro's Environmental Policy", pg. 57 committing to exceed regulatory requirements.
3.14 Externally developed, voluntary economic, environmental, and social charters, sets of principles, or other initiatives to which the organization subscribes or which it endorses. Include date of adoption and countries/operations where applied.	As members of the World Business Council for Sustainable development, BC Hydro is bound by the Global Compact, which includes the precautionary principle among its 10 Principles: "Principle 7: Businesses should support a precautionary approach to environmental challenges".
3.15 Principal memberships in industry and business associations, and/or national/international advocacy organizations.	Canadian Electricity Association, Utilities Associations and other benchmarking organizations identified on pgs. 29 and 56.
3.16 Policies and/or systems for managing upstream and downstream impacts, including: • supply chain management as it pertains to outsourcing and supplier • environmental and social performance; and • product and service stewardship initiatives. • Stewardship initiatives include efforts to improve product design to minimize negative impacts associated with manufacturing, use, and final disposal.	Included in our Compensation section, pgs. 58-60, in the Environment section - five-six programs detailed.
3.17 Reporting organization's approach to managing indirect economic, environmental, and social impacts resulting from its activities.	Environment Section, pg. 56.
3.18 Major decisions during the reporting period regarding the location of, or changes in, operations. Explain major decisions such as facility or plant openings, closings, expansions, and contractions.	In Reliability Section under Capital Projects, pgs. 25-26 as well in Environmental Section under Environmental Incident Reporting, pg. 58.
3.19 Programs and procedures pertaining to economic, environmental, and social performance. Include discussion of: • priority and target setting; • major programs to improve performance; • internal communication and training; • performance monitoring; • internal and external auditing; and • senior management review.	In the People section – discussion of our Grants-in Lieu, Corporate Sponsorships, pg. 49 and Community Investment, pg. 50 as well as employee giving, training of our staff in the people section, and a listing of our corporate audits in the Statements of Governance section, pg. 71.
3.20 Status of certification pertaining to economic, environmental, and social management systems.	See also Report On Performance, Environment pg. 57.
4.1 A table identifying location of each element of the GRI Report Content, by section and indicator.	See GRI Comparative Index http://www.bchydro.com/info/reports/reports11858.html.

2007 BC Energy Plan
A statement of B.C. government policy related to provincial energy matters issued by the Ministry of Energy and Mines and Petroleum Resources in February 2007.

BC Clean Electricity
BC Clean Electricity is defined as "alternative energy technologies that result in a net environmental improvement relative to existing energy production." Examples may include hydro, wind, solar, photovoltaic, geothermal, wave and biomass energy, as well as cogeneration of heat and power, energy from landfill gas and municipal solid waste, fuel cells and efficiency improvements at existing facilities.

Biomass
Non-fossilized organic matter often used as fuel (e.g., wood waste).

British Columbia Utilities Commission (BCUC)
An independent regulatory agency of the provincial government operating under and administering the *Utilities Commission Act*. Its responsibility is the regulation of public utilities under its jurisdiction and to ensure customers receive safe, reliable service and nondiscriminatory, reasonable rates.

Carbon dioxide equivalent (CO2e)
The standard measure for greenhouse gas emissions, expressing the global warming potential of various gases over 100 years in terms of carbon dioxide equivalents.

CFT
Call for Tender.

Certificate of Public Convenience and Necessity (CPCN)
A certificate issued to a public utility by a regulatory body such as the British Columbia Utilities Commission, for the construction or operation of a generating plant.

CFC-11
Chlorofluorocarbon (CFC), an ozone-depleting gas. CFC-11 is used in refrigerators, air conditioners, spray cans, solvents, foams and other applications.

CFL
Compact fluorescent light bulb.

CH_4
Methane (natural gas).

CO
Carbon monoxide.

CO_2
Carbon dioxide.

Cogeneration
The simultaneous production of electrical or mechanical energy and useful heat energy from a single fuel source. For example, forest sector mills can burn wood waste in a boiler to generate electricity and use low-temperature steam from the generator in pulping processes.

Decommission
To take a piece of equipment such as a generation or transmission facility permanently out of service.

Demand-Side Management (DSM)
Actions that modify customer demand for electricity, helping defer the need for new energy and capacity supply additions.

Energy Purchase Agreement (EPA)
The contract that defines the terms and conditions by which BC Hydro purchases electric energy from Independent Power Producers (IPPs).

Federal Energy Regulatory Commission (FERC)
A U.S. agency that regulates the interstate transmission of natural gas, oil and electricity.

First Nation
Either an Aboriginal governing body, organized and established by an Aboriginal community, or the Aboriginal community itself.

First Quartile
Measured performance within the top 25 per cent of a study, group or class or, above the 75th percentile.

Gigawatt hour (GWh)

One billion watt hours; one million kilowatt hours (an amount of electric energy that will serve about 100 residential customers for one year).

Gigajoule (GJ)

One billion joules of energy. A joule (J) is a metric unit of measurement for heat energy.

Greenhouse Gas (GHG)

Gases that trap heat in the atmosphere and are thought to contribute to global climate change, or the "greenhouse effect," including carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O) and sulphur hexafluoride (SF_6).

GHG offset

A project that compensates for GHG emissions from one source by lowering, avoiding or capturing and storing emissions at another source.

Global Reporting Initiative (GRI)

A series of guidelines for sustainability reporting recommended by the GRI, a joint initiative of the U.S. non-government organization, Coalition for Environmentally Responsible Economies, and the United Nations Environmental Programme. Its goal is to enhance the quality, rigour and utility of sustainability reporting.

Green Power Certificates (GPCs)

Green Power Certificates are a Power Smart product offering green electricity that is 100% generated in B.C. to domestic customers on a pilot basis. GPCs represent the environmental and social attributes of green electricity, separated from the electrons themselves. Each Green Power Certificate has a face value of one megawatt hour of electricity generated at qualified green generation facilities. Powerex, BC Hydro's power marketing subsidiary, is also piloting the sale of GPCs in the electricity marketplace.

Hydroelectricity

Electricity produced by harnessing the power of falling water or streamflow.

Integrated Electricity Plan (IEP)

The process of long-term planning of electricity generation, transmission facilities and demand-side resources to reliably meet forecast requirements.

Independent Power Producer (IPP)

Operator of a privately owned electricity generating facility that produces electricity for sale to utilities or other customers.

ISO

Independent System Operator.

ISO 14001

The international standard for environmental management, introduced by the International Standards Organization (ISO) in 1996 and updated in 2004.

Kilotonne (kt)

One thousand metric tonnes.

Kilovolt (kV)

One thousand volts.

Kilowatt (kW)

One thousand watts; the commercial unit of measurement of electric power. A kilowatt is the flow of electricity required to light 10 100-watt light bulbs.

Kilowatt Hour (kWh)

One thousand watts used for a period of one hour; the basic unit of measurement of electric energy. On average, residential customers in B.C. use about 10,000 kWh per year.

Kyoto Protocol

The United Nations Framework Convention on Climate Change entered into force in 1994. The Kyoto Protocol, which sets out more specific, binding commitments, followed in 1997. The Protocol, which still requires ratification by other countries, seeks to reduce overall emissions of greenhouse gases such as CO_2 (carbon dioxide), CH_4 (methane), and N_2O (nitrous oxide) by at least five per cent below 1990 levels in the commitment period of 2008 to 2012.

Load Forecasting

Determining an estimate of load requirements for some future time.

Long-Term Acquisition Plan (LTAP)

BC Hydro's long-term plan to acquire future energy resources.

Megawatt (MW)

One million watts; one thousand kilowatts. A unit commonly used to measure both the capacity of generating stations and the rate at which energy can be delivered.

Peak Demand

The maximum instantaneous demand on a power system. Normally the maximum hourly demand.

PLT

Power Line Technician.

PowerOn

The power outage reporting system for BC Hydro customers that provides information on the location and expected duration of outages.

Power Smart

BC Hydro's demand-side management (DSM) initiative to encourage energy efficiency by its customers. Launched in 1989, Power Smart includes a full range of DSM programs aimed at BC Hydro's residential, commercial and industrial customers.

Resource Expenditure and Acquisition (REAP)

This is a capital spending and resource acquisitions proposal filed with the British Columbia Utilities Commission (BCUC). It includes a comprehensive outline of BC Hydro's plans for upcoming capital expenditures and resource acquisitions, two years of capital plans, details of a proposed fiscal 2006 open call for 800 GWh of firm energy from larger independent power producers (IPPs) and up to 200 GWh of energy from smaller IPPs.

MWh

Megawatt hour (1,000 kilowatt hours/kWh).

N_2

Nitrogen.

N_2O

Nitrous oxide.

National Energy Board (NEB)

A Canadian federal regulatory agency.

Net Metering

A program that allows customers with their own generation facility to "bank" their surplus electricity with the electric utility. This banked surplus is then applied against the amount of electricity supplied by the utility.

NH_3

Ammonia (anhydrous).

Non-Integrated Areas

Utility service areas that are not connected to the integrated system. These areas are supplied by local diesel generation or hydroelectric generation.

NO_x

Oxides of nitrogen, including NO and NO_2, expressed as NO_2 equivalent.

Outage

A planned or unplanned interruption of one or more elements of an integrated system.

PCB

Polychlorinated biphenyl, any of several toxic compounds containing two benzene molecules in which hydrogens have been replaced by chlorine atoms, formed as waste in industrial processes.

Peak Capacity

The maximum amount of electrical power that generating stations can produce in any instant.

Stepped Rate

A rate structure for transmission class customers, prescribed by the 2002 BC Energy Plan uses different price levels to incent efficiency investments so incremental consumption will be priced at incremental cost.

Stakeholder

Individuals, groups or representatives of groups who have an interest in BC Hydro's activities. Municipal governments, environmental organizations and employees are a few examples of BC Hydro's stakeholder groups.

Sulphur Hexafluoride (SF_6)

A greenhouse gas used as an insulating and protective gas in transmission equipment.

Thermal Generation

Generation of electricity by converting heat energy into electric energy through the controlled combustion of fossil fuels or biomass.

Water Licence

The authority granted by the Comptroller of Water Rights of the Province of British Columbia to use, store and divert water.

Water Use Plan (WUP)

A plan, authorized under the B.C. Water Act, describing operating rules and boundaries for facilities on public waterways. BC Hydro's Water Use Plans are developed from a multi-stakeholder review process designed to address the varied interests for water use (e.g., fish, recreation and habitat management) associated with existing and new electricity generation and storage facilities.

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For more information about BC Hydro's Global Reporting Initiative and results, please visit our website at http://www.bchydro.com/info/reports/reports11858.html.

BC hydro

FOR GENERATIONS